MONITORING, VERIFICATION AND EVALUATION UNIT
AGRICULTURAL POLICY REFORM PROGRAM

MVE UNIT
APRP

Sponsored by:
Government of Egypt,
Ministry of Agriculture and Land Reclamation

United States Agency for International Development/Cairo
Office of Economic Growth, Agricultural Policy Division

SEED COTTON MARKETING IN EGYPT, 1999-2000

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Environmental Quality International,
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USAID Award: 263-C-00-97-00003-00

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May, 2000

Impact Assessment
Report No. 11

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AERI	Agricultural Economic Research Institute
ARC	Agricultural Research Center, Ministry of Agriculture
APCP	Agricultural Production and Credit Project (USAID)
APRP	Agricultural Policy Reform Program (USAID)
ALCOTEXA	Alexandria Cotton Exporters Association
CALCOT	California Cotton Cooperative
CAPMAS	Central Agency for Public Mobilization and Statistics
CAAES	Central Administration for Agricultural Economics and Statistics
CAPQ	Central Administration for Plant Quarantine (MALR)
CASC	Central Administration for Seed Certification and Testing
CASP	Central Administration for Seed Production
Co.	Company
Cif	cost, insurance, freight
CATGO	Cotton Arbitration and Testing General Organization
CIT-HC	Cotton and International Trade Holding Company
CIF	Cotton Improvement Fund
CRI	Cotton Research Institute (ARC, MALR)
CSPP	Egyptian German Cotton Sector Promotion Program (GTZ)
ETMF	Egyptian Textile Manufacturers Federation.
ELS	Extra long staple cotton
FD	Feddan (equal to 0.42 hectares or 1.037 acres, 4200 square meters)
FOB	Free on Board (In regard to exports of Egyptian cotton this includes all costs incurred in Alexandria in exporting cotton)
FY	Fiscal Year
GATT	General Agreement on Tariffs and Trade
GOE	Government of Egypt
GTZ	German Technical Assistance Program (Deutsche Gesellschaft Fur Technische Zusammenarbeit)
HC	Holding company
HVI	High volume instrument testing systems
ITMF	International Textile Manufacturers Federation
Kg.	Kilogram
Lb.	pound (unit of weight, equal to 0.45359 Kg.)
LE	Egyptian Pound (monetary unit)
LS	Long staple cotton
MK	Metric kentar (equal to 50 Kg of lint cotton)
MT	Metric Ton.
MMT	Million Metric Ton
MALR	Ministry for Agriculture and Land Reclamation
MPE	Ministry of Public Enterprise
MTS	Ministry of Trade and Supply

MLS	Medium long staple cotton (varieties produced in Upper Egypt)
MVE	Monitoring, Verification and Evaluation Unit of APRP
Ne	English yarn count
PBDAC	Principal Bank for Development and Agricultural Credit
RDI	Reform Design and Implementation Unit of APRP
RMC	Ready Made Clothes
RMG	Ready Made Garments
SK	Seed kentar (equal to 157.5 Kg of seed cotton)
SWRMC-HC	Holding Company for Spinning, Weaving, and Ready Made Clothes
TCF	Textile Consolidation Fund
TMT-HC	Textile Manufacturing and Trade Holding Company
UD	Universal Density cotton bale (American size bale of 480 lb.)
US$	United States dollar
USDA	United States Department of Agriculture
USAID	United States Agency for International Development
WTO	World Trade Organization

ACKNOWLEDGMENTS

The authors wish to thank Gary Ender, Chief of Party of the MVE unit of APRP, for his leadership in design of this project and for making the arrangements in organizing the resources for the study.

John Holtzman of MVE made valuable contributions to this study through his assistance in the design of the project, through sharing his notes from interviews of people in the cotton trade, and through his constructive comments on questionnaires, research procedures, and drafts of this report.

Helmet Schoen, CSPP/GTZ, and Edgar Ariza-Nino, RDI, shared data on a wide variety of items, took part in frequent discussions we had on developments in the cotton trade and gave their advice on a wide variety of items.

We wish to thank the enumerators who conducted the surveys of private cotton traders and cotton producers: Dr. Hossam Shalaby, Dr. Hossam Mahmoud, Dr. Emad Mohamed, Dr. Usama El Bahnasawi, Mr. Mohamed Atwa and Mr. Zaki Ismail.

Special thanks go to Nabil El Sentricy, who assisted in numerous ways with this study, particularly with arranging appointments for interviews with cotton trade people in Alexandria and for providing data on trade transactions of the current season.

The MVE staff made valuable contributions to this study, especially Flora Naiem Kaddies, who reviewed and entered the bulk of the survey data, and Sherif Fayaad, who performed the tabulation and analysis of the data obtained from the surveys of cotton producers and small traders.

And lastly, and also most sincerely, we thank all of those who were interviewed during this study. They made important contributions of information and provided their time, without which this study would certainly have been impossible.

EXECUTIVE SUMMARY

Objective. The objective of this study was to observe and analyze seed cotton marketing and the government policies affecting it, and especially the participation of the private sector, during the 1999/2000 season. This work is part of the MVE Unit's program to assess the impact of policy reforms in the key cotton subsector, which was targeted by APRP reforms in Tranches I-III.

Background. The total land planted to cotton in summer 1999 decreased 18 percent from the previous season and was at the lowest level in the twentieth century. Plantings of ELS declined by 60 percent from last season, mainly as a result of the redrawing of the varietal map by MALR officials to reduce the huge carryover stocks of Giza 70. The 1999 cotton crop produced higher yields than in 1998, and in general, the lint was of considerably better quality in terms of ginning outturn, maturity and micronaire.

Growers had several options this year, but the options varied by variety. Farmers sold 68 percent of their cotton crop at PBDAC rings and 27 percent at local cooperative societies, and 5 percent was sold directly to private traders or brokers. The private sector shied away from ELS varieties, but purchased more than half of the cotton produced in Upper Egypt. Of the seed cotton delivered to the PBDAC rings, 55 percent was purchased by the six public trading companies, 6 percent by the three public ginning companies, 6 percent by domestic spinners, 7 percent by EMEPAC, and 26 percent by the private trading companies.

General findings. Some very *positive results* of liberalization and privatization in the Egyptian cotton market were noted this season:

- The private sector's share of the seed cotton delivered to the gins increased from 28 percent last season to 43 percent this season.
- Cooperatives' share of farmers' sales increased from 16 percent last season to 27 percent.
- Four spinners entered the seed cotton market. This was the first season since liberalization began that spinners have purchased seed cotton; normally they bought lint.
- Several new private sector trading firms entered the market this season and were allocated PBDAC sales rings.
- A total of 36 firms and a few individuals delivered cotton to official gins this season. Of this total, 23 were private companies.
- Concentration within the private sector was less than last season due partially to the increase in the number of private traders.
- A significant amount of discounting from the fixed ginning charges was reported this season, indicating more competition in that industry.
- Private traders provided over half of the lint cotton used by domestic spinners in the 1999/2000 season. This indicates more competitive buying by spinners of all types, including public, joint investment, privatized and private spinning companies.

However, several *negative findings* also appeared:

- The number of small private traders and brokers who bought directly from farmers declined this season due to the rules of the deficiency payments program.
- Growers had fewer buy offers from private traders this season than in recent seasons.
- Very little price competition existed in the seed cotton market this season. Most sales were very close to the official table prices.
- A disproportionate share of the PBDAC sales rings were reserved for public firms.
- Cotton exports started slower than last season, but export sales picked up in the February-May period after discounts were offered for prompt shipment and once export prices and minimum allowable grades were lowered.
- The private sector share of exports declined from 25 percent last season to only 17 percent this season, and the number of private firms exporting lint declined from 11 last season to 8 this season.

Specific findings. Among the detailed findings of the study are the following:

A mixture of freedom and control. The Egyptian seed cotton market is a mixture of market freedom and government control. Farmers are free to sell their cotton to whomever they may receive offers from, and private traders may trade freely, but several GOE regulations and actions had adverse effects on market freedom. These actions include the following:

- The allocation of the PBDAC rings occurred before the export prices were announced. This action required traders to make decisions on buying seed cotton before prices were known, and as a result some buyers stayed out of the market.

- Most of the PBDAC sales rings (70 %) were held for public companies, making it more difficult for private firms to obtain seed cotton. A committee, led by the Cotton and International Trade Holding Company, allocated rings with no competitive bidding. Large traders were able to compensate for limited access to sales rings by buying large volumes of seed cotton from cooperatives.

- Neither was there any competitive bidding for seed cotton within the PBDAC sales rings. A firm that was allocated a sales ring was the only buyer at that ring and was required to purchase all of the seed cotton delivered at that ring at the official prices.

- The GOE announced that seed cotton prices would be the same as the previous season, before export prices were set by ALCOTEXA. The export prices announced were considerably lower than the previous season. Hence, the resulting marketing margins were so small as to guarantee losses to traders. The GOE then announced a deficiency payment scheme, which brought the private sector back to the market.

- At the start of the season, traders were told that deficiency payments would be made if purchases were made at sales rings. This discouraged and decreased trade directly with

farmers, especially by small traders. In February 2000 the GOE reversed this decision and announced that deficiency payments were available on all documented sales.

? The Government banned exports of three LS varieties early in the trading season, after commitments of these varieties had reached one million kentars. This action represents severe interference in market activities and tells foreign buyers that the Egyptian cotton market is controlled by the Government. This ban was lifted in May 2000, though there was little LS left to export at that point (once domestic spinners satisfied their requirements).

? Prices of seed cotton were tightly tied to export prices for lint cotton, with rigid price premiums between grades as in prior years. These fixed price differentials between grades prevent the market (in the form of traders, ginners, and spinners) from properly rewarding growers for cleaner and higher-quality cotton.

These GOE policy decisions had mixed impacts on the participation of the private sector. The establishment of the deficiency payment scheme kept the private sector in the market, particularly those larger traders who bought at sales rings and the most of the seed cotton assembled by cooperatives. On the other hand, the requirement for documentation of sales to receive deficiency payments limited the volume of direct purchases from growers, particularly through smaller traders.

Control through PBDAC Sales Rings. PBDAC rings were allocated to 13 public firms and 14 private firms. Four domestic, publicly owned spinners requested and received PBDAC rings this season. This is the first season since market liberalization began that spinning companies have bought seed cotton. This is a welcome development that could lead to a diminished role over time for the public sector cotton trading companies.

The competition for PBDAC rings was very keen this season because of the small crop. More rings were requested than were available. Private traders were allocated rings trading the varieties they preferred, but not the number of rings requested, as 70 percent of the rings were reserved for public sector firms. This policy held down private sector participation; the private sector was clearly prepared to buy a much larger proportion of the crop than it bought this season (43 %). The criteria for allocation of the PBDAC rings seem unclear. No rules are provided for cases where the demand for rings exceeds the supply. Allocation this season may have favored those firms that had the larger volumes in prior seasons.

Increase in cooperative activities. Cooperatives gained market share this season. This gain was largely due to the fact that private firms received fewer PBDAC rings than they desired, so they turned to the cooperatives to obtain cotton. The agrarian reform cooperatives increased their sales from 490,000 kentars last season to 620,750 kentars this season. The land reclamation cooperatives increased their volume by 15 percent, reaching 184,000 kentars this season. The multi-purpose credit cooperatives reentered the cotton markets this season for the first time since 1995-96 with trades of 256,200 kentars. Overall, the cooperatives increased their market share from16 percent last season to 27 percent this season.

Cooperatives sold 65 percent of the cotton they collected to seven private firms and the rest to the six public trading companies. Many farmers indicated a preference to deal with their cooperative rather than with PBDAC because of quicker payment and because of PBDAC's deductions for production loans. Further gains in market share by cooperatives are expected in future seasons. Since cooperatives negotiate sales contracts at the national level, they prefer to deal with the large private traders. Hence, increased cooperative activity in the future could lead to greater concentration in the private sector, a development that may reduce competition and lead to a decline in the number of private firms.

Private share increases, but small traders limited. Private traders were told that deficiency payments would be paid only if sales documents could be presented showing the variety, grade, weight, ginning outturn and prices paid. Thus, many private traders who deal directly with growers stayed out of the market this season. About five percent of the seed cotton was sold to private traders even though they paid prices that were slightly lower than at the PBDAC rings or cooperatives. Farmers sold to private traders primarily because of the quick payments received, or to temporarily delay payments on loans, or because the private trader transported the seed cotton to the gin. Farmers who trade with private traders do so willingly and plan to continue to do so in the future. The vast majority of the sample farmers (95 %) feel that it is good to have private traders in the market, because they feel that more competition will increase the prices they receive.

There are large numbers of unregistered cotton traders in the country who operate quite openly with no interference from the GOE. However, fewer private traders operated this season due to the deficiency payment scheme, and because of a lack of capital. Village-level traders and brokers sell seed cotton mostly to the larger private trading companies, but some sold cotton to spinners, to the *dawaliib*, and some to public trading and ginning companies. This group of traders apparently bought all grades of cotton. Only one private sales ring (in Fayoum) operated this season.

Most of the smaller private traders were limited by a shortage of working capital. A group of 64 small private traders reported that they would have expanded their purchases this season from an average of 1,800 kentars to 3,400 kentars if they had had additional capital. Banks provided no financial assistance to sample private traders this season. Another problem for local traders is that they were not well informed about cotton prices. Almost two-thirds of them thought international prices this season were the same as last season. These traders rely on the official price tables in their trading. Since these prices were the same this season as last season, these traders had reason to think that international prices had not changed.

Practically all private traders, both small and large, are only part-time cotton traders. This is partly because cotton trading is a seasonal activity. It is also due to the uncertainty and variability of GOE policies and regulations, which discourage some traders from trading cotton during some seasons, such as in the 1999-2000 season.

Only four private trading companies purchased ELS cotton this season. The private trade purchased only 26 percent of the ELS and 43 percent of the LS grown in the Delta but 57 percent of the cotton grown in Upper Egypt. This strategy targeted sales to domestic spinners, to whom private firms sold

the bulk (68 % as of 8 April 2000) of their cotton this season. None of this was ELS cotton. Domestic spinners use very little ELS cotton because of its high cost and because few of them are capable of spinning high-quality or high-count yarns.

Private traders found selling lint cotton to domestic spinners to be more profitable than exports in 1999/2000. They sold to spinners who generally paid cash, lowering their storage costs and the cost of tying up capital in stocks of lint cotton. The reduced domestic marketing margin, administratively determined for exported lint, as well as lower fobbing costs, reduced the profitability of exports in 1999/2000 relative to 1998/99, and private sector exports consequently fell.

Of the seed cotton delivered to gins, 43 percent was owned by private companies and 57 percent by public companies. Private sector trading companies purchased 50 percent of their seed cotton at PBDAC rings, 39 percent through cooperatives, and 11 percent directly from growers through local traders and brokers. Public firms purchased 55 percent of the seed cotton this season, with only 13 percent of this from cooperatives and the rest from PBDAC rings. Seed cotton purchases by public ginning companies declined considerably this season. Public firms were required to buy only at official markets to qualify for deficiency payments.

Private share of exports declines. The private trade lost market share in lint exports this year. By May 1, 2000 eight private firms had exported 17 percent of the total versus 25 percent exported by 11 private firms last season. Total export commitments were initially below the pace of the 1998/99 season, due to inflexibility in pricing and overpricing by ALCOTEXA. As a result, private firms saw the domestic market as a better opportunity for profit. The private share of the complete marketing year's exports is likely to decline from 17 percent as carryover stocks continue to be exported by only public companies.

1. INTRODUCTION

In October 1986 the GOE embarked on a program of economic reform and liberalization in cotton production and marketing. Over the past 13 years, USAID has worked closely with the GOE to liberalize cotton production and marketing. Considerable progress has been made, however the improvements have been incremental, with new and different policies each year, which do not always advance the reform agenda, and with varying impacts on the market. The MVE unit of APRP is responsible for monitoring, documenting and assessing the impact of the policy reforms of the APRP. This report is a part of this effort. The main objective of this study is to observe and document the participation of the private sector in the seed cotton market during the 1999-2000 season. This study will focus on seed cotton marketing with less emphasis on lint cotton distribution and exports, and will add to the body of knowledge gained from similar studies conducted in prior years. An assessment will be made as to the progress being made in Egypt toward liberalization and privatization of cotton marketing.

The marketing rules for this season, as outlined in official decrees and announcements, will be reviewed and examined (Chapter 2). Comparisons of these regulations will be made to previous years.

Farmers' seed cotton marketing practices during the 1999-2000 season will be examined in Chapter 3. A survey of producers was conducted to determine their marketing practices, the problems encountered, prices received by farmers with the various marketing options, and their preferences in marketing with particular emphasis on farmers' interest and acceptance of cotton trading by private traders.

The various marketing institutions and participants will be examined. The first round of trading of seed cotton will include a look at the role and market share of the various market participants. The PBDAC sales rings are examined in Chapter 4, the cooperatives expanding role is discussed in Chapter 5, and the activities of private traders are reviewed in Chapter 6.

The activities of the public sector in trading cotton are examined in Chapter 7 and the activities and market share of the various ginning companies are reviewed in Chapter 8, with comparisons to previous years. A summary of seed cotton trading is presented in Chapter 9.

This report is focused on seed cotton markets but we give a cursory look at activities in the domestic lint market in Chapter 10, the export markets in Chapter 11 and imports of lint cotton in Chapter 12. Some aspects of the financing of the cotton markets are examined in Chapter 13.

2. GOVERNMENT POLICIES AND PRICING

2.1 History of Liberalization

Cotton production and marketing in Egypt were under the complete control of the GOE from the early 1960's until the GOE pricing policies were changed in 1989 to give farmers a larger share of the export prices (6, page 21). Seed cotton prices were gradually increased between 1989 and 1993. By 1994-95 farmers were receiving 90-94 percent of the export prices.

Private traders were permitted to trade seed cotton in the 1994-95 season and to export cotton in 1995-96. From that period to the present time the market has experienced major swings in private sector participation as a result of widely differing government pricing policies and changes and uncertainties in GOE marketing rules (13).

Although the focus of this study is on the seed cotton markets, lint cotton markets are touched on briefly since the two markets are interrelated. These prices and policies were far from being market determined in the 1999-2000 season. The 1999-2000 season continued as one of the incremental steps lacking complete market freedom but permitting limited participation of the private sector.

2.2 The 1999-2000 Season Policies

2.2.1 Seed Cotton Prices

It was quite obvious during the 1999-2000 season that several ministries within the GOE played a role in determining cotton prices and policies. It was also obvious that the sequence of policy decisions made during this season was significant and particularly affected private traders. The first major policy announcement dealt with seed cotton prices. During the summer of 1999 the officials in the MALR announced that farmers would receive the same prices for seed cotton as they had received the previous season. However, when the price tables were released it was learned that the seed cotton price of all varieties had stayed the same except Giza 70, which had been reduced by 8 percent (See Table 2.1).[1] The official seed cotton price tables indicate the premiums paid by grade and by ginning outturn. As in 1998-99, the differential for grade was set at LE 6/Kt for each 1/8th grade difference for all varieties (at G.O. = 100 %) and throughout the entire range of grades.

2.2.2 Marketing Decree

In early August 1999 Joint Ministerial Decree No. 1014 was issued (Annex II) which specified the marketing procedures for the upcoming season. ***The fact that such a decree is issued demonstrates that the market is not completely free.*** This decree, which is traditionally issued by the Minister of Agriculture, was similar but not identical to decrees issued in each of the past several years. This

[1] Differences in prices between 1998-99 and 1999-00 in Table 2.1 are due entirely to differences in the season average ginning outturns (see Table 8.1) except for Giza-70.

decree clearly stated that farmers should receive international prices for their cotton based on the export prices announced by ALCOTEXA but that the government would bear no financial burden for the cotton crop. This decree stated that farmers could market their cotton through either public or private buyers. We will see below that the seed cotton prices paid to farmers were not completely based on export prices.

Table 2-1: Procurement and Floor Prices of Major Varieties of Seed Cotton, 1993-94 through 1998-99

(LE/seed kentar)

Season	G-45	G-70	G-77	G-76	G-86	G-85	G-89	G-80	G-83
1993-94		361	323	390	NG	NG	NG	274	
1994-95	500	375	351	376	NG	NG	NG	323	316
1995-96	600	566	550	585	500	NG	NG	425	425
1996-97	700	565	550	590	500	500	500	440	440
1997-98	700	555	550	590	500	500	500	440	440
1998-99	741	405	383	412	363	338	342	295	296
1999-00	776	397	NG	NG	363	338	337	316	300

Source: 6, Tables 3-1, 3-5, & 3-6. NG = not grown. The grade required in 1996-97 was Good. Ginning outturn varies with variety. Giza 86 introduced in 1995. In 1997-98 the grade required to receive the same floor price was increased to Good/Fully Food. The prices in 1998-99 and 1999-2000 are for the grade of Good +1/8 at the average ginning outturn for the season as reported in Table 8.1. The preliminary reported average grade by CATGO for 1999-2000 was good + 1/8th.

2.2.3 Allocation of PBDAC Sales Rings

At the end of August the PBDAC sales rings were distributed to the private and public trading companies. This allocation to public and private traders was conducted by the CIT-HC under the supervision of the Cotton Supervisory Committee. The allocation procedures will be discussed below.

2.2.4 Export prices

On 19 September 1999 the opening export prices for the 1999-2000 season were announced by ALCOTEXA. This price setting board responded to sharply declining international prices by making price cuts in most varieties from last season's prices, as shown in Table 2.2. Export prices of the ELS varieties were decreased by 12 to 16 cents/lb. or about 13-14 percent. Prices of LS varieties were decreased by 3-6 cents/lb. or 4-6 percent. The export price of Giza 45 was decreased by a much larger amount. (See Chapter 11 for more details on export prices).

2.2.5 Deficiency Payments

When the export prices were announced it was clear that the seed cotton prices were not based on export prices. The export prices for the 1999-2000 season had been reduced from last season, as described above, but this large reduction in the export prices, with no decrease in the price of seed cotton, reduced the marketing margins to such a point that trade of some varieties was unprofitable.

Table 2-2: Opening Export Prices of the Major Export Varieties, (Grade of Good /Fully Good), 1990-91 through 1999-2000

(US cents/lb.)

Season	G-70	G-76	G-77	G-86	G-85	G-89	G-80	G-83
1990-91	237	260	232	NG	NG	NG	NG	NG
1991-92	160	168	155	NG	NG	NG	NG	NG
1992-93	129	138	121	NG	NG	NG	NG	NG
1993-94	107	114	97	NG	NG	NG	81	81
1994-95	107	112	102	NG	91	NG	87	87
1995-96	188	193	183	NG	NE	NG	NE	NE
1996-97	140	147	135	111	107	NG	103	103
1997-98	130	135	122	106	96	98	92	92
1998-99	117	120	112	100	92	94	88	86
1999-00	102	104	100	94	88	91	82	82

Source: Egyptian prices from the Egyptian Cotton Gazette, No 113, October 1999.
NG = Not grown. NE = No exports

In prior years, as in 1996-97 and 1997-98, the GOE seed cotton price was implemented by simply making the public trading companies buy the seed cotton and sell to the domestic spinners or to export buyers and absorb the loss.[2] The price situation in 1999-2000 prompted the GOE to announce a system of deficiency payments immediately after the export prices were announced whereby the trader would be paid a specified amount for each kentar of seed cotton that he purchased to offset the reduced marketing margin. Without such a deficiency payment scheme the private sector would have been completely locked out of the cotton trade for several varieties***. So even the consideration of such a scheme by the GOE indicates interest in keeping the private sector in the cotton market***. On the other hand, such a scheme may have minimized losses for the GOE. Keeping the private sector in the market increased the prospects for exports and meant that perhaps the private sector firms may have to hold part of any possible carryover stocks.

The deficiency payment was to 'bridge the gap' between the previously announced prices for seed cotton and the announced export prices. The calculation of these payments can be illustrated as follows for two varieties, G-70 and G-89. These two varieties actually illustrate the extremes in the range in the deficiency payments (except for Giza 45).[3] This illustration is based on one kentar of lint cotton with a grade of Good/Fully Good and a ginning outturn of 115 percent.

[2] Most of the debt of the public trading companies is due to past GOE cotton pricing policies. In 1997-98 the GOE tried a deficiency program but it failed because it required a large deposit of private buyers for each PBDAC sales ring and the GOE failed to provide certainty of payment to private traders (3).

[3] Very little attention will be given to Giza 45 in this report. Giza 45 is high quality cotton that has enjoyed a niche market, primarily with Japanese spinners, that has dwindled badly in recent years. Exports were 1,150 MT in 1990-91 but dropped to 170 MT in 1998-99. Only 6,141 feddans were planted in 1999 but due to disappointing exports again this season it will not be grown in 2000.

Calculation of deficiency payments:

	Giza-70	Giza-89
Export price (cents/lb.)	102	91
Less fobbing allowance (cents/lb.)	10	10
Domestic spinners price (cents/lb.)	92	81
Domestic spinners price (LE/KT)	344.80	303.57
Less marketing allowance	50.00	50.00
Domestic price	294.80	253.57
Adjust for ginning out-turn (1.15)	337.89	290.48
Value of seed and scarto	56.88	56.88
Value of seed cotton (per kentar)	394.78	347.37
Price paid to the farmer	418.12	352.67
Deficiency payment (LE/KT)	23.34	5.30

In determining the deficiency payments the GOE made an allowance for marketing expenses and the value of by-products. The government allowed 10 cents/lb. of lint for fobbing expenses (12 cents last season) and allowed LE 50/Kt. for upcountry marketing costs (LE 55 last season.)[4] The estimated value of the byproducts was set at LE 56.88 per seed kentar which was a considerable increase over last season (about 33 %). Traders complained that the estimated costs of marketing and fobbing costs were too low and the value placed on the byproducts (seed and scarto) was too high, and thus in their opinion the deficiency payments were much less than they should be. However, the traders voluntarily proceeded to trade. Based on the above assumptions the GOE, through CATGO, issued a several page table of deficiency payments, which varied by variety, ginning outturn and grade (Table 2.3).

The variations in deficiency payments are rather complicated and hence difficult to comprehend. One would expect that the deficiency payment would increase with an increase in the value of the cotton due to higher grade or ginning outturn. This is not the case. As the table shows, the higher grades generally have lower deficiency payments and for some varieties the higher ginning outturns also have lower deficiency payments. Actually, at very high grades of some varieties the deficiency payment would be negative but it is unlikely that any cotton was given that high a grade.

The deficiency payment was designed to adjust for the difference in the marketing margin between seed cotton and lint cotton with the lint cotton prices taken as the export prices announced by ALCOTEXA and with the same seed cotton prices as last season. This means that after the adjustment for the deficiency payment has been made, the seed cotton trader should have the same marketing margin between seed cotton and lint cotton for all grades and ginning outturns for a given variety. The government claims that the marketing margins will then be the same as last season, but traders disagree.

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[4] Fobbing includes preparation for export of which the major items are farfarra, repressing CATGO grading and transportation. Due to competition from the private gins the charge for repressing at the Egyptian Cotton Pressing Co, has been reduced this season from LE 19.50/Kt to LE 13.50/Kt. a reduction of about 1.5 cents/lb. of lint. Upcountry marketing costs includes ginning, CATGO grading, sacks, all GOE marketing fees, transportation, finance charges, commissions, etc.

Table 2-3: Examples of Announced Deficiency Payments for Selected Grades and Ginning Outturns of Seed Cotton, 1999-2000 Season

(LE/Kt.)

Grade	Ginning outturn	G-45	G-70	G-86	G-85	G-89	G-80	G-83
Good + 1/8	1.10*	252.48	24.70	20.06	11.82	7.68	20.05	11.80
Good + 1/8	1.15	264.08	25.14	20.03	11.42	7.10	20.02	11.41
Good + 1/4	1.10	250.98	23.80	19.16	10.92	6.78	19.15	10.90
Good + 1/4	1.15	262.88	24.54	19.43	10.82	6.50	19.42	10.81
Good + 3/8	1.10	249.48	22.90	18.26	10.02	5.88	18.25	10.00
Good + 3/8	1.15	261.68	23.94	18.83	10.22	5.90	18.82	10.21

*The ginning outturns of Giza 45 are always lower than the other varieties. The deficiency payments given for G-45 are for 1.00 and 1.05 instead of 1.10 and 1.15.

The first step in calculating the deficiency payment schedule is to estimate the deficiency payment for 100 percent ginning outturn and at a base grade. Apparently the base grade used for seed cotton was Good +3/8^{ths} and the base export grade appears to have been Good/Fully Good.[5] The major determinant of the deficiency payment was the change in the export price from last season. Thus, for example, the export price of Giza 70 was decreased by 14 cents where as the price of Giza 86 was decreased by only 8 cents and that of Giza 89 by only 5 cents.

With these announced prices the margin between seed cotton and lint cotton is not constant but differs with each grade. Examination of the price tables shows that this season the export price of lint differs by one cent/lb. for each 1/16th change in grade, or 2 cents for each 1/8th grade at all grade levels and all varieties. On the other hand the prices of seed cotton are varied by LE 6/Kt for each 1/8th grade for all varieties and at all grade levels. Thus, the margin between seed and lint cotton was much smaller at the low grades than at the high grades in the 1999-2000 season prior to the adjustment of the deficiency payment.

Two cents/lb. is the equivalent of LE 7.5/kt. Hence, given that the lint price will increase 2 cents/lb. for each 1/8th grade increase, then to keep the marketing margin the same at all grade levels, the seed cotton price should increase LE 7.5/kt. for each 1/8th grade instead of LE 6/kt. The deficiency payment is used to make this adjustment. Thus at 100 percent ginning outturn the deficiency payment must be

[5] It appears that it is assumed that seed cotton with a grade of Good + 3/8ths will produce lint cotton with a grade of Good/Fully Good (1/8th grade increase).

decreased by LE 1.50 for each 1/8th grade increase in grade above Good/Fully Good and increased for each 1/8th grade below this grade. This adjustment (LE 1.50/Kt.) is the same for all varieties. On the other hand, each increase of one percent in the ginning outturn will call for increasing the deficiency payment by one percent. The interplay of these two variables, one going up and one going down, makes a complicated table of deficiency payments. ***This complexity in calculation, and the uncertainty of whether or when the payments would be made caused a great deal of uncertainty for the private traders buying outside of the rings this season.***

When the deficiency payment scheme was announced the GOE also announced that it had deposited LE 200 million into the Stabilization Fund to fund this program.[6] The total cost of this program is estimated to be less than LE 65 M. (see Table 9.5)

On 9 February 2000 a group of cotton traders, public and private, met with the Deputy Finance Minister of MALR and discussed the procedures for payment of the deficiency payments. The announcement was made that the first set of documents had been audited and the first payments would be made as of the end of February.

On 9 February 2000 it was also announced that ***deficiency payments would be made on purchases made outside of the official sales rings*** (PBDAC and cooperatives) if documentation could be presented showing CATGO grading with variety and grade, registered weight receipts and ginning outturn test results, and that the official price had been paid. Many private traders, especially small traders, had limited their trading, or did no trading during the season, because they had been told that deficiency payments could be received only if the sale was at an official market (a PBDAC ring or a cooperative).

Changing the rules of the game midway through the market season is ill advised, and in this case was particularly unfair to and discriminated against the small private trader. The private trader could perhaps have operated a private ring and met all of the requirements for the deficiency payments, and could then have offered a better price to the grower.

2.2.6 Ban on Exports

The small size of the cotton crop prompted the chairmen of two of the cotton holding companies (SWRMC-HC and TMT-HC) to request the GOE to restrict exports of lint in an attempt to save lint for the domestic spinning companies. This ban on exports of the three major export varieties, Giza- 85, 86 and 89, was announced on 27 October 1999.[7] This ban limited total exports of these three varieties to one million kentars, the amounts that already been committed at that time. ***This was another case***

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[6] Actually, a newspaper article stating that the GOE was providing LE 200 million for the Cotton Stabilization Fund appeared in the Al Ahram on 1 September 1999, well before the new export prices were announced. This newspaper article acknowledged the decline in world cotton prices and reaffirmed that seed cotton prices would be the same as the previous year. So in fact the approval of funds for deficiency payments occurred first so that the export prices could be reduced without causing a disruption of private trade in cotton this season.

[7] See decree by Dr. Mohktar Khatab of 27 October 1999 in Annex II.

of changing of the rules in the middle of the season. This ban on exports of these three varieties was lifted in May 2000.

These various GOE actions will be dealt with in more detail in this report as we go step by step through the market system. This brief review clearly indicates the heavy hand of the government on the cotton market. In the next chapter we will follow the cotton from the farm through the various steps until we reach the export markets or domestic spinners, examining the market shares of each category of trader at each step and trying to determine the impacts of the GOE policies.

2.3 Policy by Committee

As was suggested above, many of the GOE policies regarding cotton marketing are the product of and are administered by committees. The GOE has established a fairly large number of committees for this purpose. The major cotton committees are here listed.

The Cotton Supervisory Committee, chaired by His Excellency, Dr. Hassan Khedr, has responsibility for generally overseeing the domestic markets[8]. This committee prepares the draft of the annual ministerial decree, which establishes the cotton marketing rules and regulations. This year this became ministerial decree No. 1014 of 1999 of the MALR.

Two major sub-committees under this committee are:

1- The Permanent Committee chaired by Dr. Mohamed Mohgahzy
This committee meets weekly. It supervises the domestic marketing including the allocation and monitoring of the sales rings.

2- Technical Committee, also chaired by Dr. Mohamed Mohgahzy
This committee deals with cotton grading and quality issues.

The Cotton Council, chaired by Dr. Ahmed El-Gohary, is responsible for advising the Minister of Agriculture on many matters regarding cotton research and policy and has the specific responsibility to recommend the annual variety map, which requires the approval of the Minister of Agriculture.

A committee within the CIT-HC jointly with the Supervisory Committee mentioned above has the responsibility to allocate the PBDAC sales rings.

There is currently a committee within the MALR, which is charged with considering the possibility of making deficiency payment to buyers of seed cotton outside of the official rings. (direct from farmers).

The Minister of Trade and Supply established the Lint Cotton Facilitating Committee in 1997-98. The Chairman of CIT-HC chairs it. Its members include representatives of CATGO, the public trading companies and the Minister of Economics and International Foreign Trade. The purpose of this

[8] Dr. Khedr was chairman of this committee when he was Chairman of PBDAC

committee is to facilitate the allocation and sale of lint cotton to private companies as needed for export and to domestic spinning mills. This cotton was purchased as seed cotton by the public companies. In 1997-98, floor prices on seed cotton were announced that were too high to permit any private company to purchase seed cotton for export purposes. However, the private traders were permitted to buy lint cotton from the public trading companies to fill export contracts and this committee had the responsibility of accounting for the lint cotton. But trading of lint cotton to fill export contracts occurs every year, and thus this committee has continued to function.

ALCOTEXA, (The Alexandria Cotton Exporters Association) was founded in 1932 and originally was entirely controlled by the private sector. This organization was re-established in 1994 as a price determining body with a membership of only the six public trading companies. As privatization has expanded the membership has gradually grown to its present size of 23 firms. The policy decisions of the group are officially made by a Management Committee which consists of 12 cotton exporters and three members appointed by the government. These three appointed members are non-voting on most policy decisions. Currently the 12 voting members consist of six from the public sector and six from the private sector. The private sector members who sit on the Management committee are largely former chairmen of holding companies and public trading companies.

Officially, ALCOTEXA announces the lint export prices at the start of each marketing season in September, after study of the international cotton situation. ALCOTEXA has the authority to adjust the export prices each week but historically it has made few price adjustments during the season. In most seasons there have been no price adjustments for the entire season but in recent years some small adjustments have been made. The addition of private firms to ALCOTEXA membership has resulted in very little change in the philosophy of the organization in terms of price flexibility. Most private members allege that the real decisions on prices have been made by the GOE. On the other hand, after private firms have bought seed cotton they do not want to see export prices decreased either. This is largely a game of strategy between the public members and the private members. ALCOTEXA rules are largely unenforceable on private members. However, government auditing agencies enforce the public companies to abide by these prices, so the private firms don't want to see the public firms lower their prices although they may do so themselves.

3. MARKETING PRACTICES OF COTTON GROWERS

3.1 Production of Seed Cotton

Cotton production has been declining in Egypt in recent years (Tables 3.1 and 3.2). The area planted has shown a downward trend from 1996 through 1999 at an average rate of 10 percent per year with a decrease from 1998 to 1999 of 18.2 percent. This large decline in area planted in 1999 can be attributed to the decline in profits from cotton production in 1998 which was the result of low prices (see Table 1), low yields (see Table 3.1) and an increase in land rents. This decline occurred despite the government's attempts to encourage farmers to grow cotton by subsidizes of some costs.[9]

Table 3-1: Area, Yield and Production of Seed and Lint Cotton, 1990-99
(Year of Production)

Year	Area (Feddans)	Seed cotton (000 Kentar)	Yield of seed cotton (KT/FD.)	Lint cotton (000 Kentar)	Yield of lint cotton(KT/FD.)
1990	993,047	5,169	5.21	5,919	5.96
1991	851,283	5,051	5.93	5,826	6.84
1992	840,296	6,006	7.15	7,147	8.51
1993	884,310	6,878	7.78	8,314	9.40
1994	721,443	4,329	6.00	5,095	7.06
1995	710,207	4,062	5.72	4,831	6.80
1996	920,911	5,700	6.13	6,914	7.51
1997	859,255	5,842	6.80	6,841	7.96
1998	788,812	3,986	5.05	4,594	5.82
1999	645,417*	3,921*	6.08*	4,*	7.*

Sources: MALR and ALCOTEXA
* Final production estimates are based on final ginning reports.

The area of ELS cotton was severely reduced this season. The total area planted to ELS varieties this season was only about 40 percent of last season. The major reason for the decline in ELS production was a result of redrawing of the varietal map, not a decision by farmers to cut production. Giza 76 and Giza 77 were eliminated this season and the area of Giza 70 was drastically reduced. The MALR, on preparing the varietal map for 1999, was also considering the elimination of Giza 70 but was persuaded to continue Giza 70 at a reduced level by RDI and CSPP analysts. MALR officials pointed to the large carry-over stocks of Giza 70 from 1996, 1997 and 1998 as a reason for discontinuing production of this variety. However, RDI and CSPP analysts argued that these carry-over stocks were a result of overpricing of Giza 70 by ALCOTEXA in the previous two seasons, not due to a decline in demand.

[9] In 1999 the GOE paid 2/3rds of the pest control costs, about 40 % of the seed costs and paid all of the soil preparation costs if the farmer planted his cotton in March.

Brisk sales of Giza 70, particularly late in the 1999-2000 season, confirmed that the demand for this variety by foreign spinners is still good, and is responsive to price changes.
Cotton yields and lint qualities were much better in 1999 than in 1998. Sufficiently so that total lint cotton production in 1999 was slightly higher than in 1998. Note that the number of varieties grown in 1999 was reduced from last season. The entire area planted of Giza 88 was dedicated to producing seed for replanting and thus there were only seven commercial varieties in production in 1999.

3.2 Producers Marketing Options, 1999-2000 season

In the 1999-2000 season most cotton growers had the freedom to sell their cotton at PBDAC sales rings, to private traders outside of the rings or to cooperatives. In four governorates (Gharbiya, Kafr El Sheikh, Sharkia, and Minya) the credit cooperatives also traded cotton. Hence, the number of marketing options available to a cotton grower depended upon the activities or presence of the cooperatives in his area and on the variety he had produced. We will see later that private traders were highly selective in the varieties that they traded.

Some farmers also traded cotton with neighbors. Those farmers who bought cotton from neighbor farmers subsequently sold it at the PBDAC rings or to private traders. During this season, managers of the PBDAC rings were instructed to require the *heyaza*[10] card of those who came to sell cotton at the rings. This restriction is meant to prevent private traders from buying seed cotton from farmers at a low price and reselling it at the PBDAC rings at the official price. However, any land holder has such a card and hence any farmer could buy cotton from his neighbor and resell at the PBDAC rings or could market cotton on behalf of a private trader who does not have the *heyaza* card.

Farmers who sell to neighbors generally do so because they need cash immediately. Hence they are willing to take a small price penalty, or discount, in return for financial liquidity. Also, some farmers finance their neighbors farming operations and then are repaid with cotton instead of cash. Thus, they unwillingly become cotton traders.

As has happened in past years, some local PBDAC banking officials and cooperative societies attempt to deduct payments due on loans from the amount due the farmer for his cotton. Hence some farmers preferred to sell to a neighbor, or to any private trader, to delay payments on their production loans.

[10] The *heyaza* card was an important means of control in the days when agricultural production was highly controlled in Egypt. It was a card which indicated the area of each crop which that farmer was scheduled to plant each year. It was used to control the purchase of subsidized inputs and is now used to prevent non-farmers from bringing cotton to the sales rings. ***The fact that these cards are still required indicates the absence of a completely free market.***

Table 3-2: Area of Cotton Planted by Variety, 1993-99

(Year of planting)

VARIETY	1993	1994	1995	1996	1997	1998	1999*
ELS Varieties							
Giza 45	13,161	6,308	5,848	2,931	5,265	9,731	6,141
Giza 70	148,681	56,491	65,320	102,705	119,931	159,586	72,811
Giza 76	21,404	12,422	8,749	15,165	13,034	6,916	N.G.
Giza 77	80,771	14,270	22,169	39,196	34,485	26,259	N.G.
Giza 84	4,936	8,929	N.G	. N.G.	N.G	. N.G.	N.G.
Giza 87	N.G	. N.G.	N.G	. 340	N.G	. 65	N.G.
Giza 88	N.G	. N.G.	N.G	. N.G.	N.G	. 73	1,266
Subtotal-ELS	268,953	98,420	102,086	160,337	172,715	202,630	80,218
LS Varieties							
Giza 75	399,617	454,860	418,986	378,009	198,226	N.G	. N.G.
Giza 86	N.G	. N.G.	4,652	42,488	120,435	249,818	170,553
Giza 89	N.G	. N.G.	N.G	. 775	9,718	63,223	158,329
Giza 85	6,626	18,221	42,833	146,634	156,342	98,752	130,405
Subtotal-LS	406,243	473,081	466,471	567,906	484,721	411,793	459.287
MLS Varieties							
Dandara	47,476	22,689	2,838	N.G	. N.G	N.G	. N.G.
Giza 81	21,808	15,089	N.G	. N.G.	N.G	. N.G.	N.G.
Giza 80	122,199	96,028	111,017	147,702	153,976	70,009	49,091
Giza 83	17,420	15,015	27,329	43,818	47,649	104,230	56,732
Subtotal MLS	208,903	148,821	141,174	191,520	201,625	174,239	105,823
Others	211	1,121	476	1,148	194	150	89
Grand Total	884,310	721,443	710,207	920,911	859,255	788,812	645,417

Source: MALR, Economic Affairs Sector. N.G. = Not grown * = Preliminary

3.3 Marketing Survey of Cotton Producers

A survey of 102 cotton producers was conducted in November-December, 1999. The sample size was purposely kept small, because this survey was not intended to measure the market shares of the various types of cotton traders. The quantity of cotton sold by farmers to various traders would be reported by the traders and included in reports of receipts at the gins and by CATGO. This survey was

conducted mainly to obtain information on farmer's reactions and opinions regarding the various types of traders and regarding the market activities this year as compared to other years.

At the time the survey was planned, the deficiency payment scheme had been put into place (see Chapter 2). It was expected that this scheme would discourage trading outside of official channels and hence the share of the crop that would be sold to private traders would be very small. Thus a completely random sample of growers with a small total sample size would result in a very small number of farmers selling to private traders. We wanted a larger sample of farmers who sold to private traders and we therefore designed a sampling scheme that was not completely random.

Six individuals with university and graduate level training who have had prior experience in fieldwork of this type performed all of the survey enumeration.[11] These enumerators were instructed to select at least 10 farmers in their sample area that produced the variety of cotton under study. These 10 farmers were to be selected randomly from lists of farmers in the village cooperatives and in the same villages where they had interviewed private traders. One restriction placed on this sample was that not more than 3 farmers should be selected from any village. After the 10 farmers had been interviewed by each enumerator, if less than 3 of these farmers had sold their cotton to private traders then the enumerator was to purposely seek out other farmers in other nearby villages who had sold cotton to private traders. Thus we knew in advance that this survey would include a greater percentage of farmers who had sold to private traders then the average in the entire population.

The enumerators selected and interviewed 102 growers in 6 governorates. These 6 governorates were purposefully selected to represent the six major cotton varieties, (G-70, G-86, G-85, G-89, G-80 and G-83). The sample size of each variety is given in Table 3.3.[12] Most of survey data will be tabulated by variety. By chance, none of the sample farmers were members of the Land Reclamation Cooperative societies and only 6 of the entire sample were members of the Agrarian Reform cooperative societies but almost all were members of the general purpose credit cooperative societies (Table 3.4).

Yields of cotton on the sample farms were similar but differed from the average yields for that variety in the entire country (Table 3.5). Due to the small survey sample no conclusion could be made as to whether these yield differences were significant.

[11] See the 'Acknowledgments' for the names of the enumerators. These enumerators conducted the survey of private traders (see Chapter 6) at the same time as they conducted the survey of cotton producers.

[12] English translations of the questionnaires used in this survey are included in Annex III.

Table 3-3: Description of Land Holding and Area of Cotton Planted by Sample Farms

Variety	Sample Size	Ave. land Holding (FD)	Ave. area of cotton (FD)	Percent of land In cotton
G-70	15	11.5	5.9	51.3
G-86	20	4.2	1.9	45.2
G-89	10	2.5	1.2	48.0
G-85	31	7.5	4.0	53.3
G-80	13	9.7	3.3	34.0
G-83	13	12.8	3.5	27.3

Table 3-4: Membership of Sample Farmers in Cooperatives

Variety	Sample Size	In Ag. Reform Cooperative	In Credit Cooperative
G-70	15	1	15*
G-86	20	0	20
G-89	10	0	10
G-85	31	4	27
G-80	13	1	13
G-83	13	0	13

* Farmers reporting membership in more than one cooperative

Table 3-5: Average Yield of Seed Cotton of Sample Farmers

Variety	Average Yield (Kt./FD)	Average for Variety* (Kt./FD)
G-70	5.0	6.05
G-86	6.3	5.54
G-89	5.4	7.09
G-85	6.8	5.47
G-80	7.4	7.62
G-83	7.0	8.21

*Source: MALR, Preliminary estimates.

Tables 3.6 and 3.7 show the number and percent of farmers who sold their cotton by various methods. As explained above, our sample contained a much larger percent of farmers who sold to private traders than was the case in general. This was done purposely to get a larger sample of farmers who had sold to private traders.

Table 3-6: Number of Sample Farmers Selling Cotton by Various Methods

	Variety						
Method of sale	**G-70**	**G-86**	**G-89**	**G-85**	**G-80**	**G-83**	**Total**
Sample size	15	20	10	31	13	13	102
PBDAC rings	13	14	3	17	5	5	57
Agr. Reform cooperative				4	1		5
Other cooperatives			1				1
Private Trader	2	8	6	14	9	8	47

Sample farmers were not asked to report the grade of the cotton they sold. Experience in past surveys indicated that farmers generally do not know the grades of their cotton.[13] Hence, part of the differences in prices here reported between marketing methods is likely due to differences in grade. Normally, the grade of cotton in an area varies within a range of 3-4 grades ($1/8^{ths}$ of a full grade). The price differential for each $1/8^{th}$ of a grade is LE 6/KT so the range in the price of seed cotton, due to variations in grade, in a specific area will be LE 18-LE 24/Kt. Differences in price will also occur due to variations in ginning outturn. Each one-percent variation in the ginning outturn gives a price difference of about one- percent. Thus, given these variables and the small sample size, it is impossible to conclude from these data that the difference in method of sale had any effect on the price received (Table 3.9).

Table 3-7: Percent of Sample Farmers Selling Cotton by Various Methods

	Variety					
Method of sale	**G-70**	**G-86**	**G-89**	**G-85**	**G-80**	**G-83**
PBDAC rings	86.7	63.6	30.0	48.6	33.3	38.5
Agr. Reform cooperative				11.4	6.7	
Other cooperatives			10.0			
Private Trader	13.3	36.4	60.0	40.0	60.0	61.5

The question, "Does the quality of your cotton affect the price you receive?" was asked to determine if farmers have any concern for quality. If farmers do not know that they will get a better price for better quality cotton than they likely will care little about doing the right things to improve the quality. The results from this question were not encouraging (Table 3.10). ***Almost 40 percent of farmers either said that quality does not affect price or they didn't know if it affected the price***. A similar question was asked in a survey of 520 cotton producers last season and 36 percent reported that they didn't know if the quality affected the price (13, page 17). ***These results imply that the***

[13] After the CATGO grader has determined the grade of each sack a symbol is painted on the sack (See Ref. No 9 Annex V for these symbols). Farmers can thereby compare the grade of their cotton with their neighbors but few farmers can convert these symbols into grades.

quality premiums that are currently paid for cotton are likely too small to be noticeable by farmers. Also, it indicates that MALR extension workers need to put more emphasis on cotton quality in their discussions with farmers.

Table 3-8: Percent of Cotton Sold by Sample Farmers Various Methods

	Variety					
Method of sale	**G-70**	**G-86**	**G-89**	**G-85**	**G-80**	**G-83**
PBDAC rings	97.7	73.4	36.0	61.6	43.4	49.2
Agr. Reform cooperative				2.5	2.8	
Other cooperatives			23.4			
Private Trader	2.3	26.6	40.5	35.9	53.8	50.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Table 3.9: Average Price Received for Cotton when Sold by Various Methods

(LE/Kt.)

	Variety					
Method of sale	**G-70**	**G-86**	**G-89**	**G-85**	**G-80**	**G-83**
PBDAC rings	378.1	343.2	308.3	337.1	311.0	304.4
Agr. Reform cooperative				351.5	320.0	
Other cooperatives			345.0			
Private Trader	385.0	338.4	344.2	350.4	297.8	299.4

Farmers were also asked: "Were you permitted to sell your cotton to anyone you wanted to this season?" All sample farmers responded that they knew that they had complete freedom in selling their cotton. These results are encouraging. In the sample one year ago only 76 percent were sure that they had compete freedom in cotton marketing (13, page 12).

Table 3-10: Responses to Question: "Does the Quality of your Cotton Affect the Price You Receive?"

(No. of responses)

Variety	**Yes**	**No**	**Don't know**
G-70	13	2	0
G-86	16	2	2
G-89	4	0	6
G-85	16	12	3
G-80	8	5	0
G-83	6	6	1
Totals	63	27	12

3.3.1 Growers Selling to PBDAC

Growers in the sample who sold cotton at the PBDAC sales rings waited an average of 10 days for full payment for their cotton but this waiting period varied considerably among members in the sample (Table 3.11). Those farmers producing Giza 80 (in Beni Suef) waited an average of 20 days while those growing Giza 85 (in Daqahliya and Sharkia) received payment quite promptly. These responses indicated that farmers had more delay in receiving full payments this season than last season.[14]

It is surprising that all farmers selling at PBDAC rings did not report any marketing deduction since PBDAC did deduct LE 2.68 per kentar as marketing charges on all cotton (See Table 4.1). Fifteen sample farmers (26 %) who sold their cotton at PBDAC rings reported no deductions. On the other hand, most farmers reported more deductions than LE 2.68/Kt. Most of these were not deductions by PBDAC but represent other marketing costs. Some farmers reported transportation costs, which are not deductions by PBDAC. But also, many farmers in Behira reported charges for weighing by those working in the rings. The workers weighing the cotton are paid by PBDAC, and are not supposed to charge farmers for weighing, but find themselves in a good position to do so.

There should have been no other deductions. The PBDAC banks had been told not to deduct for payments on farmer's loans (see footnote no. 13) but some farmers, primarily those in Sharquia, reported that other deductions were made. However, these farmers may have voluntarily agreed to these deductions to make payments on their loans.

Only 23 percent of these sample growers (13 of 57) were satisfied with the price received. The major complaint received (28 out of 44 complaints) was that the price was too low and didn't cover their production costs and three growers said they could make more money growing other crops.

A large number of complaints were received about the operations of the rings. These came mainly from farmers in Behira, Sharquia and Daqahliya. All of the sample farmers in Behira complained about the delays in payment and about half of them also complained about the grading and the weighing. As reported above, some farmers in Behira complained that the people weighing the cotton at the rings were demanding extra payment for weighing from the grower. The growers of Giza 85 had similar complaints.

[14]It is apparent that slow payment by PBDAC was not an isolated problem. On 5 October an article appeared in the Al-Wafd newspaper stating that Dr. Youssef Wally, Minister of Agriculture, had issued urgent instructions to all of the PBDAC governorate banks "to speed up the payments for cotton immediately after delivery". He warned them against delaying payments, and he also warned them not to deduct from these payments for cotton for any loans the farmers owed the banks. Slow payment has been a perennial problem for farmers selling at PBDAC rings. See Ref. # 13, page 14 and Ref. #10, Table 19.

Table 3-11: Responses from Sample Farmers who Sold Cotton at PBDAC Rings

(Number of responses)

	Varieties						
Item	G-70	G-86	G-89	G-85	G-80	G-83	All
No. of sales	13	14	3	17	5	5	57
Ave. no. days before payment	15.8	10.6	7.0	3.9	20.0	6.2	10.0
Market deductions reported	12	7	2	14	4	4	42
Average deduction (LE/KT)	3.67	2.13	4.00	2.19	3.13	2.83	2.82
Other deductions		1		13			14
Satisfied with price		4		4	1	4	13
Complaints about price	13	10	3	13	4	1	44
Complaints about PBDAC	11	5		12	1		29
Why sold at PBDAC							
Best price	2	4	3	6	2	1	17
Can trust PBDAC	2	5	3	10			20
Easiest way		1		1			2
No other offers	8	8		5	1	4	26
Had to pay PBDAC	2	1		8	1		12
Other		1			4	1	6
Needed *heyaza* card	13			11	1		25
Can sell other's cotton				2			2

The main reason farmers gave for selling at the PBDAC rings was that they had received no offers from private cotton buyers (46 %), but this differed a lot by variety (see Table 3.13 below). Most of the growers producing Giza 70, 86 and 83 gave this response but few growers of the other varieties gave this response. The 2nd most frequent response was that PBDAC could be trusted (35%). The 3rd most frequent response (30 %) was that PBDAC gave them the best price.

Most of the growers of Giza 70 and 85 also said that the *heyaza* card was required of them at the PBDAC rings but this was not the case for the other varieties. Only two of the 57 growers said that they could sell other farmer's cotton at the PBDAC sales rings. These differences in responses and complaints between varieties, or governorates, indicates a lack of uniformity across the country on the part of PBDAC in the application of its marketing rules and in the service provided. As we will see in Chapter 4, PBDAC was supposed to make one full payment for the seed cotton within two days of grading.

3.3.2 Growers Selling at Coopratives

Only 6 of the 102 sample farmers sold cotton to cooperatives. Hence no tabulation of the results by variety will be presented. Generally those farmers selling to the cooperatives gave the same types of comments as those who sold at the PBDAC rings. These farmers were paid from the same official price tables as at the PBDAC rings and paid the same marketing fees. Three of these 6 farmers thought the price was too low or unattractive. A few complaints were received regarding slow payment,

regarding grading, weighing and deductions. These 6 farmers waited an average of 6 days for payment.[15] All 6 farmers said that they sold to the cooperative because it gave the best price, and 5 said that they sold to the cooperative because it could be trusted.

3.3.3 Growers Selling to Private Traders

As stated above, the sample was purposefully selected to give a larger percentage of growers who had sold to private traders than occurred in general. However, very few farmers who produced Giza 70 sold to private traders.[16]

About 46 percent of the growers in our sample sold to private traders this season (Table 3.12). Almost half of the private traders (43 %) that farmers sold cotton to live in the same villages. Slightly over half of these sample farmers (55 %) had sold cotton to these same traders in previous seasons.

All private traders paid immediately for the cotton purchased from these sample farmers and all traders transported the cotton. Quick payment was the reason that most farmers sold to these traders. These traders also were successful because they were easy to deal with; they transported the cotton for the farmer and made no deductions for marketing costs or other reasons. Almost 2/3rds of the farmers who sold to these traders (64 %) said they had received a fair price. Actually, 43 percent of these traders had paid a lower price than the farmer thought he could get at the PBDAC sales rings but these farmers still accepted these deals for the reasons stated.

The majority of these growers (85 %) said they would sell to these same traders again in the future, for the same reasons cited above, and almost all of them (91 %) said they preferred this method of sale to the PBDAC rings. Remember that this is not a random sample and does not mean that all farmers have the same opinion, only that the majority of these growers were well satisfied with the deals they had made.

3.3.4 Other Questions

All sample farmers were also asked if they had bought cotton this season from their neighbors. Only eight of the 102 farmers reported that they had done so. Five farmers in Behira had bought cotton from their neighbors and reported that they sold it at the PBDAC rings. Three farmers in Beni Suef who bought cotton from their neighbors sold it to other private traders. One sample farmer in Beni Suef had bought 9,000 Kts. from his neighbors.

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[15] The farmers selling at the PBDAC rings or the cooperatives were very likely counting time from the day they delivered their cotton to the ring. In both the cooperatives and PBDAC rings the cotton was graded only one day each week and hence some portion of the wait was necessary for grading.

[16] As we shall see later, a very small share of Giza 70 was sold to private traders this season. Since the lint price of this variety had been decreased a large amount this season the deficiency payments for this variety were quite large. But since private traders did not expect to receive the deficiency payment they could not make a profit by trading in this variety.

Questions were also asked soliciting the farmer's opinions about the cotton market this season (Table 3.13). The responses were about equally divided between "worse", "better", and "about the same". ***But the vast majority of the sample farmers (95 %) feel that it is good to have private traders in the market, because they feel that more competition will improve prices.*** On the other hand, 17 farmers said that they thought that all cotton should be sold at the PBDAC rings. But 10 of these 17 farmers were producers of Giza 70, which had few private traders this year. Positive responses to both questions do not necessarily imply an inconsistency. There were few private traders of some varieties, such as Giza 45 and Giza 70, and the PBDAC rings were the only markets available.

The sample farmers were asked if they had received the price that they were expecting to receive, or a higher or lower price. Only one farmer reported that he received the price that he had expected. Surprisingly, 37 out of 102 received a higher price than expected and the balance of 64 received a lower price. But we did not learn what their price expectations were or how they were influenced.

Farmers were then asked how many offers they had received this season from private traders and how this compared with the number received the last season they sold cotton. The number of offers received varied significantly between varieties. As expected, growers of Giza 70 received the lowest average number of offers and growers of Giza 89 received the highest number. This average number of offers is inversely correlated with the size of the deficiency payment, which is what could be expected.

None of the sample farmers reported that they had received more offers this season than in previous seasons. About half of the sample farmers (52 %) reported that they had received the same number of offers and about half (48%) said they had received fewer offers this season than the last season that they sold cotton. ***We can conclude from these data that there were generally fewer private traders buying seed cotton this season than in recent prior seasons.***

Table 3-12: Details Regarding Sales of Cotton by Sample Farmers to Private Traders

(Number of responses)

	Varieties						
Item	**G-70**	**G-86**	**G-89**	**G-85**	**G-80**	**G-83**	**All**
Sample size	15	20	10	31	13	13	102
No. sold to private trader.	2	8	6	14	9	8	47
Was buyer a farmer?			2	10	5	3	20
From your village?			2	8	4	7	21
Sell to him before?		1	4	9	5	7	26
Paid immediately	2	8	6	14	9	8	47
Transported cotton	2	8	6	14	9	8	47
Paid a fair price.				14	8	8	30
This price versus price at PBDAC rings:							
Same				6	3	4	13
Higher			5	7	2		14
Lower	2	8	1	1	4	4	20
Why did you sell to him?							
Best Price			4	10		1	15
Trusted him				10	1		11
Easy to deal with		7	6	14	8	8	43
Higher grade				13			13
Paid immediately	2	8	6	14	9	8	47
Paid transport		8	2	14	7	5	36
No deductions		7	2	14	7	6	36
Complaints:							
Price not suitable		5	1	1			7
Would sell again? Yes	2	7	4	12	8	7	40
Prefer over PBDAC? Yes	2	7	4	14	8	8	43

Table 3-13: Opinions about this Season's Market

(Number of Responses)

	Variety						
Item	**G-70**	**G-86**	**G-89**	**G-85**	**G-80**	**G-83**	**All**
Sample size	15	20	10	31	13	13	102
Market system this year:							
Better	1	11	0	17	6	4	39
Worse	12	2	9	4	2	0	29
Same	2	7	1	10	5	9	34
Is it good to have private traders? (YES response)	15	19	7	30	13	13	97
Why?							
More competition will improve the price	15	14	6	30	11	13	89
Easier to deal with		5	1		2		8
Should all cotton be sold at PBDAC? (YES response)	10	2	3	1	0	1	17
Receive expected price?							
Same				1			1
Higher		3		19	5	10	37
Lower	15	17	10	11	8	3	64
Ave. No. bids from private traders.	0.4	0.6	3.3	1.52	1.92	1.08	1.38
Same as last time sold	15	8	5	22	0	3	53
Less than last time sold	0	12	5	9	13	10	49

4. TRADING OF SEED COTTON AT PBDAC RINGS

As reported in Chapter 3, growers sold seed cotton this season at PBDAC rings, through their cooperatives, or directly to private traders, which also may include other farmers. This chapter will present data and a description of selling seed cotton by growers at the major outlet, the PBDAC sales rings.[17]

4.1 Operating Rules of the PBDAC Rings

The rules for marketing through the PBDAC rings, which were established by Joint Ministerial Decree No. 1014, were similar to last season with few exceptions. A total of 805 rings were established at the start of the 1999-2000 season by PBDAC. This is a reduction from the 892 rings established last season. However, with the reduction in area of cotton planted this season, the average number of feddans of cotton served by each ring actually declined from 884 feddans last season to 819 feddans in this season.

Farmers could deliver cotton to the rings any day of the week. It was weighed by registered scale operators prior to grading. CATGO cotton graders (or classers) were assigned in a manner so that the cotton was graded one day each week at each ring. After each sack of seed cotton was graded, a sample was submitted to a gin for one ginning outturn test each week per ring. The results of this test were applied to all of the cotton that was delivered and graded at that ring for that week. Incidents were reported where farmers would take their cotton to the rings that reported the highest ginning outturn tests instead of the ring closest to them.

The grading and testing procedures were the same as last year. The marketing charges at the rings were also set at the same level as last season (Table 4.1).

Table 4-1: Marketing Charges Levied at the PBDAC sales rings, 1999-2000 Season
(LE/kentar of seed cotton)

Item	Paid by Producer	Paid by buyer	Total
CATGO (Grading)	.40	.50	.90
Operating sales ring	1.20	1.20	2.40
Wages of ring operators	.42	.42	.84
Weighing cotton	.255	.005	.26
Preparation of sales ring	.25	.25	.50
Preparation of reports	.155	.155	.31
Total	2.68	2.53	5.21

Source: PBDAC

[17] In this report PBDAC rings allocated to private companies are not considered as private rings. All of the rings discussed in this chapter are labeled PBDAC rings whether the cotton is delivered to a private or a public company. To our knowledge cotton was sold at only one private ring, in Fayoum, this season. ATICOT operated two private rings in Upper Egypt this season but no cotton was delivered to their rings.

The official prices for seed cotton were the same in 1999-2000 as in the previous season for all varieties except Giza 70. Joint Ministerial Decree No. 1014 specified that farmers were to receive prices in accordance with the export prices set by ALCOTEXA. ALCOTEXA has authority to vary the prices each week. According to the Joint Decree, changes in the export prices would necessitate the issuance of a new set of seed cotton price tables each Monday (ALCOTEXA meets on Sundays). However, no changes in export prices were made during the period when seed cotton was marketed.

Decree 1014 also specified that farmers were to receive total payment for their cotton **at one time**, in place of the traditional practice of two payments, one after weighing and one after testing. This new practice meant that the testing should be done expeditiously and then payment must also proceed expeditiously after testing. PBDAC put in place a routine designed to give farmers full payment for their cotton within two days after grading was completed. As was reported earlier, (Chapter 3) farmers did not receive payment from PBDAC as quickly as was intended.

As stated above, the local rings had instructions to require the *heyaza* card by cotton sellers. Enforcement of this rule would prohibit private traders from selling cotton at these rings that they had purchased from growers, but the rule does not prevent other farmers from doing so. In a survey of cotton growers (Chapter 3) it was found that the *heyaza* card was required of cotton growers in only two of six governorates. Thus the enforcement of this regulation was not uniform.

Again this year, a trader who was allocated a sales ring was obliged to take all of the cotton delivered to the ring, regardless of the grade, and was obligated to pay the official prices which had been distributed by CATGO. On the other hand, farmers could deliver all, a portion, or none of their cotton to the ring. They could sell part or all to a private trader or deliver it to their cooperative if their cooperative was buying cotton. As stated in the introduction of the Joint Ministerial Decree No. 1014, the PBDAC rings were established to provide a market for any buyer who does not receive any other purchase offers.

Traders who desired to purchase seed cotton from a ring where obliged to supply a bank letter of guarantee to PBDAC for 5 percent of the estimated value of the cotton to be delivered to the ring. The guarantee was reduced this season from 8 percent to 5 percent. Some private traders considered this requirement to be discriminatory. However, for one public agency to require a financial guarantee from another public agency seems rather meaningless. Actually the 5 percent letter of guarantee is a small part of the capital required for cotton trading. The farm-gate value of the seed cotton crop was about LE 1.3 Billion this season with the value of the cotton delivered to the average sales ring at LE 1.5 Million.

Each week the buyer must pay PBDAC the full value of the cotton delivered in that week before he can take delivery and transport the cotton to the gin. The average weekly value would be about LE 250,000 and the trader cannot turn this capital over until the cotton is ginned and sold. If the trader were exporting the cotton the trade would not likely be completed for several months. Hence the trader who plans to export must have sufficient financing to cover about 90 percent of the cotton value, not just 5 percent. If the trader could resell to another trader, or to a domestic spinner, he could reduce the holding time considerably and reduce the capital requirements (see Chapter 13).

Joint Ministerial Decree No. 1014 specified that traders receiving cotton were expected to place their representative at each ring to attend the weighing process. Also, the buyer was expected to furnish security guards for the cotton while in the rings and to furnish any employees needed for sewing sacks. The buying party is obligated to reimburse the farmer or furnish the sacks needed for the seed cotton and the cotton tying strings. The sacks than become the property of the buying company. Some of these sacks are later used to wrap the bales of lint cotton, or for reuse next season, or are sold as salvage. The buyer is expected to move the cotton from the ring to the gin each week and must pay the costs of loading, unloading and transport to the gins. These rules are all very similar to those of last season.

4.2 Allocation of the PBDAC Sales Rings

The CIT-HC, under the supervision of the Supervisory Cotton Committee, was given the responsibility of allocating the PBDAC rings. In prior years the CIT-HC has maintained that the private sector had been given first choice in the selection of the rings with the public sector having the obligation of taking what rings remained, both in term of quantity and quality.

The allocation of these rings was a more critical matter this year than in previous seasons. Traders and members of the allocation committee both knew that this was a short crop. The number of private firms applying for rings had also increased this season. In addition, four spinning companies applied for rings. Private companies had to specify not only the number of rings desired but also the variety wanted and the locations of the rings they desired. The number of rings requested this season by public and private companies exceeded the number available.

Some private traders said that they expected that they would not get their full request so they requested more rings than what they really wanted and in the end received about as many as they really wanted. But perhaps each private trader had his own idea of how to play this game and how much to inflate his request. The representative of the holding company has reported that 30 percent of the rings were allocated among the private companies with 70 percent reserved for all public companies.

But what criteria were used to allocate the rings between private companies? Joint Ministerial Decree 1014 specifically states that the allocation should be done to prevent any firm from acquiring a monopoly of the seed cotton of any variety. The decree also states that all buyers must be registered and that all buyers that have intentions to buy should be able to buy. Thus, each buyer must get at least one ring, but no rules are provided to guide the allocation of rings when the demand for rings exceeds the supply.

Most of the large private sector cotton traders were interviewed for this study. Not all of the large private traders requested PBDAC sales rings. Responses from those traders who did request rings indicate that almost every firm that requested rings were allocated fewer rings than they requested. Firms were granted from 22 percent to 65 percent of their requests. Complete data on the numbers of rings requested were not obtained but ***it is estimated that in total the private sector received no more than half of the sales rings that they requested.*** Thus, if the private sector had been

allocated all of the rings they had requested the private sector would have received an estimated 60 percent of all of the rings.

From the survey responses it appears that the volume traded by a firm last season had some bearing on the number of rings the firm received this season. The larger firms generally reported receiving a larger percent of their request than did the smaller firms. A policy of allocation of rings based on previous size, if maintained over time, would discourage entry of new firms and lead to restricted and reduced competition. However, some traders maintain that there was no discrimination against small firms. They point to the fact that many new small firms received rings this season.

A total of 805 sales rings were established by PBDAC at the start of the season. Data were available on the initial distribution of these rings by variety and by company, but were not provided on the final numbers by company (Tables 4.2 and 4.3). Some changes were made during the season. Some rings were dropped and some additional rings were established. Also some private firms dropped some rings which were then allocated to public firms. Table 4.4 describes the initial number and the final number of sales rings by governorate.

The 12 large private traders and 3 public traders were asked to confirm the number of rings allocated to them, as reported in Table 4.2. The survey results confirm that these data provide a fairly accurate picture of the ring allocations by company. Some small differences from this table were noted, with the exception that Talaat Harb is not included in the list of firms in Table 4.2 but was in fact allocated 13 rings.[18] It was not determined what firms were required to give up the rings allocated to Talaat Harb, though it was probably the public firms. It was reported that if a trader abandoned any rings, these rings would be reallocated to one of the public companies. In previous season (1998-99) some buyers were unable to provide the capital to purchase all of the cotton at the rings they had been allocated, and hence these rings were reallocated to a public company. However, PBDAC authorities reported that no problems of this type during the 1999-2000 season.

4.3 Choice of Variety

Although the private sector may not have had their choice as to the number of PBDAC rings, they appear to have had their choice regarding the varieties they wished to purchase. None of the private traders interviewed reported that they had been allocated a ring of a variety that they did not want to purchase. No substitutions of rings between varieties were required. The low percentage of rings allocated to the private trade for the ELS varieties reflected their requests by varieties.

[18] The management of Talaat Harb acknowledge that they did not have their bank letter of credit to PBDAC on time when the allocation was made, but this was arranged shortly thereafter and the rings where then awarded.

Table 4-2: Number of PBDAC Sales Rings by Variety and Company, Beginning of 1999-2000 Season

	Variety								
Type or name of company	**45**	**70**	**88**	**86**	**89**	**85**	**80**	**83**	**Total**
Public Trade and Gin Companies									
Alex. Comm	1	4.5		12 .5	21.5	12.5	6.5	9.5	68
Alcotan	1	10		16	21.33	15.33	4.5	11.83	80
MISR	1.5	5		15	23.83	12.33	4.0	10.5	72.16
Eastern	1.5	6		16	18.33	19.5	5.5	8.5	75.33
Al Kahira		6.5		15.5	18.33	11.0	6.5	10.5	68.33
Port Said		7		14	22.33	12.0	9.0	7.83	72.16
MISR Ginning				5	8.83	6.0	1.5	2.83	24.16
Delta Ginning		1		4	9	10.5	3.5	1	29
El Wadi Ginning		2		6	9.5	4.33	---	3.5	25.33
Total (Public)	5	42	0	104	153	103.5	41	66	514.5
Spinning Companies									
MISR-Mehalla S & W		2		8	7	3	8		28
Delta Spinning						4		1	5
Daqah. Spinning					1		1	1	3
MISR-Iran S & W				5		6	2	2	15
Total (Spinners)		2		13	8	13	11	4	51
Private Traders									
Modern Nile		5		12	18	18	13	12	78
Nile Ginning				2	3	2		3	10
Nassco		3		7	4	5		7	26
Aticot (Dabbah)				1	3	2	3	10	19
Benha					3	3			6
Tanta					7	11	3	3	24
El Mabrouk						10	3		13
Shamal El Saied				1	2				3
El Sayad/Madawy				2					2
El Safa						1			1
El Dawlia						3	1	3	7
Abd El Rahman							5		5
Total (Private Traders)		8		25	40	55	28	38	194
EMEPAC		1	1	16	3	10.5	11	3	45.5
Grand Total	5	53	1	158	204	182	91	111	805

Source: CIT-HC. The fractions resulted because the public companies shared some rings.

4.4 PBDAC Market Share

The PBDAC rings continued this season to be the cotton farmer's major outlet for their crop but the share sold through this route declined significantly from last season. Cotton growers delivered

approximately 2/3rds (68.7 %) of their seed cotton to the PBDAC sales rings, a decline from 74 percent last season. Also, the PBDAC market share differed considerably by variety.

Table 4-3: Percent of PBDAC Sales Rings Allocated by Type of Buyer Beginning of the 1999-2000 Season

	Variety								
Type of company	**45**	**70**	**88**	**86**	**89**	**85**	**80**	**83**	**Total**
Public Trading	100	73		57	62	46	40	57	54
Public Ginning		6		9	13	11	5	2	10
Spinning		4		8	4	7	12	4	6
Private Traders		15		16	20	30	31	34	24
EMEPAC		2	100	10	1	6	12	3	6
Grand Total	100	100	100	100	100	100	100	100	100

Table 4-4: Number of PBDAC Sales Rings Beginning and End of 1999-2000 Market Season, by Governorate

Governorate	Beginning Of season	End of Season
Alexandria	1	1
Behira	149	149
Daqahliya	81	81
Damietta	20	20
Sharkia	112	95
Menofiya	44	43
Kafr El Sheikh	112	112
Gharbiya	64	64
Qalubiya	17	17
Ismailia	3	2
Fayoum	39	37
Beni Suef	35	46
Minya	56	56
Assuit	49	49
Sohag	23	16
Total	805	788

As we will see in Chapter 6, the private sector elected to trade very little ELS cotton. Purchases of these varieties by private traders and also the deliveries to the cooperatives was much less than of the LS varieties. The PBDAC rings were established for the purpose of providing a "market of last resort" and this was the case with the ELS varieties, especially with Giza 45.

The public sector purchased 67.1 percent of the cotton delivered to the rings. This market share was determined largely by the number of rings allocated to the public companies. As reported in Table 4.3, the public companies were allocated 70 percent of these rings.

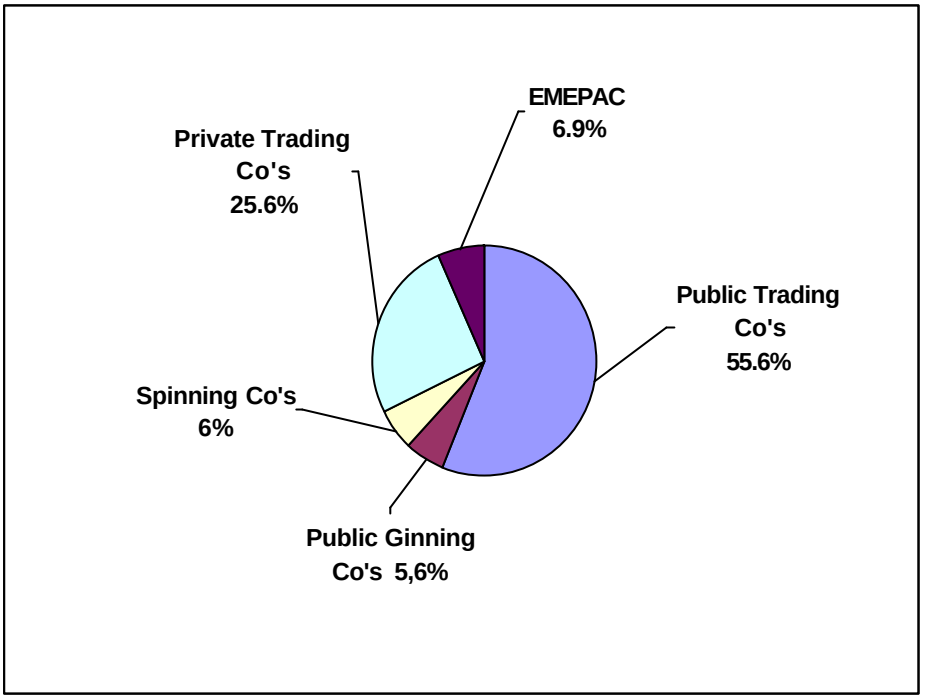
As will be discussed later, the public gins and the four spinning companies made all of their seed cotton purchases at the PBDAC sales rings. The three gins purchased a total of 151,396 Kt., which was 5.6 percent of total sales at the PBDAC rings. The four spinning mills purchased 158,042 Kts, or 5.9 percent of the sales at the PBDAC ring

Table 4-5: Total Deliveries of Seed Cotton to the PBDAC Rings by Type of Buyer

Variety	Public Companies	EMEPAC	MALR Gin	Private Companies	Total Deliveries
Giza 45	16,819	2,500	301	---	19,620
Giza 70	259,280	10,089	811	51,976	322,156
Giza 88	---	9,359	---	---	9,359
Total ELS	276,099	21,948	1,112	51,976	351,135
Giza 86	362,199	46,608	4,962	102,924	516,693
Giza 89	564,647	13,051	2,131	145,805	727,073
Giza 85	252,267	25,241	3,570	151,629	431,268
Total LS	1,179,113	84,900	10,663	400,358	1,675,034
Giza 80	113,649	54,540	651	87,838	256,678
Giza 83	237,045	23,109	268	148,735	409,157
Total MLS	350,694	77,649	919	236,573	665,835
Grand Total	1,805,906	184,497	12,694	688,907	2,692,004
Percent of PBDAC	67.1	6.9	0.4	25.6	100.0
Percent of del. To gins	46.1	4.7	0.3	17.6	68.7

Source: CIT-HC. (Final estimates)

Figure 1: Buyers at PBDAC Rings



5. TRADING OF SEED COTTON BY COOPERATIVES

The cooperatives played a much larger role in the marketing of seed cotton in 1999-2000 than in any season since 1995-96 (13, page 25). Three groups of cooperatives traded 27 percent of the seed cotton this season compared to 16 percent last season.

5.1 Agrarian Reform Cooperatives

The Agrarian Reform Cooperative societies traded seed cotton in 13 governorates during the 1999-2000 season. Their total volume of trade increased from 490,000 Kt. in 1998-99 to 620,753 Kt. in 1999-2000, an increase of 26.7 percent over last season. This group of cooperatives thus traded about 15 percent of the entire 1999-2000 cotton crop (Table 5.1). This cooperative sold 70 percent of its seed cotton to five private sector firms (Modern Nile, Talaat Harb, Al Watany, ATICOT, and EMEPAC) and 30 percent to the six public trading firms. One private firm, Modern Nile, purchased 45 percent of the total marketings from this group of cooperatives.[19]

[19] The National Agrarian Reform Cooperative Society owns 17 % of the shares of El Arabia Ginning Company. The individuals that own Modern Nile have controlling interest in El Arabia Ginning.

Table 5-1: Sales of Seed Cotton by the Agrarian Reform Cooperative Societies, 1999-2000 Season

(Seed Kentar)

Buying Company	G-45	G-70	G-86	G-89	G-85	G-80	G-83	Total
Alexandria	845	3,151	14,541	7,804	6,802		1,035	34,178
Alcotan		3,639	11,936	11,334	3,475			30,384
Port Said		5,457	12,757	13,157	4,760			36,131
Cairo		2,065	10,856	11,132	3,147			27,200
MISR		7,167	8,914	9,018	3,388			28,487
Eastern		5,803	11,021	10,513	3,497			30,834
Total Public	845	27,282	70,025	62,958	25,069		1,035	187,214
Modern Nile		41,025	43,391	89,127	68,355	24,308	12,675	279,061
Talaat Harb				17,051	9,562			26,613
Al Watany		1,924	8,722	969	6,984			18,599
ATICOT				4,724	7,940	14,165	11,657	38,486
Total Priv.		43,129	52,113	111,871	92,841	38,473	24,332	362,759
EMEPAC		8,150	22,970	9,600	6,600	19,355	4,105	70,780
Grand Total	845	78,561	145,108	184,429	124,510	57,828	29,472	620,753

Source: CIT-HC

The national officers of this cooperative reported that their farmers are free to sell to whomever they wish, but they reported that all of the cotton produced by their farmers was sold through their cooperative. Some local officials have different opinions on this matter. These cooperatives collect from farmers on loans for seed and fertilizer, but the cooperative reports that payments on loans are voluntary. The prices paid to farmers for seed cotton by the cooperatives followed the official price tables and the farmer and the buyer paid the same marketing charges as at the PBDAC sales rings. The farmer was paid 90 % of the value of his cotton as soon as it was weighed and the balance was paid after all of the testing was done. This cooperative intended to pay within one week of delivery to the local cooperative.

All buying companies select the locality (local cooperatives) in which they want to buy seed cotton and then buy all of the cotton delivered to that local cooperative. The buying companies are not able to select the better grades of cotton or take only the first picking. The buyers make advance payments to the cooperative society when they sign a contract before harvest, in August. The private companies made advance payments of about LE 50/ Kt (15 %) when they signed the purchase contracts. The public companies also make advance payments, but at a lower rate. The buyer makes full payment when he receives the cotton. These payments are used to pay the farmers for their cotton. The Agrarian Reform Society has 687 local cooperative societies that act as cotton collection centers.

5.2 Land Reclamation Cooperatives

The Land Reclamation Cooperatives also increased their market share in 1999-2000 but they recorded a smaller increase than did the Agrarian Reform cooperatives (Table 5.2).

Their total cotton sales increased by about 15 percent from last season to 184,000 seed kentars. They collected and marketed cotton at 135 of their 342 local societies.[20]

Table 5-2: Purchases of Seed Cotton by the Land Reclamation Cooperatives, 1999-2000 Season

Variety	Governorate	Kentars	Ave. Grade	Ave. G.O.
G-70	Behira	14,400		
	Alexandria	12,866		
	Total	27,266	Good	115.5
G-86	Kafr El Sheikh	82,346	Good +3/16	117.0
	Daqahliya	43,079	Good +1/8	119.0
	Total	125,425		117.7
G-89	Behira	4,924		
	Alexandria	221		
	Total	5,145	Good	116.0
G-85	Sharkia	15,892	Good +1/8	119.0
G-80	Beni Suef	10,513	Good +1/8	119.0
Total		184,241		

Source: Land Reclamation Cooperative Society

In place of the marketing charge of LE 5.21/Kt at PBDAC rings these cooperatives charged their members only 1 percent of the value of the seed cotton, which varies by variety, but averages about LE 3.50/Kt. (see seed cotton prices in Table 2.1). Their farmers received the same official prices as at the PBDAC rings. Hence, the cost of the cotton to the buyer was slightly lower than the same cotton bought at the PBDAC rings. CATGO graders graded all of the seed cotton they collected, but the cooperatives also had members of their own staff who were trained as graders to check the grading. They paid their farmers 90 percent of the total estimated payment due after grading and the balance after the ginning outturn test.

They requested that their members sell their cotton to their local cooperatives to permit collection on loans for seeds and fertilizers, but not all members complied. The cooperative reported that this season the estimated cotton production of their farmers was 236,000 Kts. but only 184,241 kentars were delivered. Thus they believe that about 22 % of their farmers sold to other outlets to avoid or delay payments to the cooperative society. As a consequence, the cooperative indicated that they would not make loans to these farmers next season. Most of these farmers likely sold at the PBDAC rings or to the Agrarian Reform cooperatives only to delay making payments to the Land Reclamation cooperative, not to get a better price.

The Land Reclamation Cooperatives sold all of their cotton this year to the six public trading companies (Table 5.3). The public companies made advance payments to this cooperative for the cotton in August

[20] Cotton is not produced in all areas where these cooperatives exist and some local cooperatives chose to not market cotton.

at the time that contracts were signed. This payment provided the cooperatives with the money needed to pay the farmers for the cotton.

Table 5-3: Sales of Seed Cotton by Land Reclamation Cooperatives, 1999-2000 Season

Public Company	Seed Kentar
MISR	32,642
Alexandria	33,979
Alcotan	43,694
Port Said	29,532
Eastern	23,947
Cairo	20,447
Total	184,241

Source: CIT-HC

5.3 Credit Cooperatives

The general credit cooperatives re-entered the cotton market in the 1999-2000 season for the first time since 1995-96 (Table 5.4)[21]. They purchased seed cotton at 407 local cooperative societies in five governorates and sold it to four private traders. Contracts with cotton buyers were made at the national level. Their member growers paid the same marketing charges when selling at the cooperative as those growers who sold cotton at the PBDAC rings (LE 2.68/Kt.). Buyers also paid the same charges as at the PBDAC rings (LE 2.53)/Kt. but these cooperatives kept LE 1/Kt. for incentive payments to the workers at the collection centers. Thus, the buyer had to pay LE 1/kt more for the same variety and grade of cotton purchased from the credit cooperatives than for cotton bought at the PBDAC rings.

Sales by farmers at all cooperative collection centers were under the supervision of CATGO graders and registered scale operators and thus qualified as officially government approved sales. Thus, receipts from such sales were expected to be eligible for the deficiency payments.

Sales of seed cotton by the cooperatives were generally negotiated by officials at the national headquarters of the cooperatives, not at the governorate or village level. Because of the large volumes involved, these cooperatives were generally successful in obtaining slight premiums over the official price tables.

[21] This group of cooperatives are variously known as credit cooperatives, multi-purpose cooperatives, or production cooperatives. These cooperatives provide financing, production inputs and product marketing services to their members. For simplicity sake we will call them 'credit cooperatives'. There is a credit cooperative, an Agrarian Reform cooperative or a Land Reclamation cooperative in almost every village in Egypt. In 1996 there were 5,686 agricultural cooperatives in Egypt with 3,738,000 members.(See RDI Report No. 78 for more details).

Table 5-4: Purchases and Sales of Seed Cotton by the Credit Cooperative Societies, 1999-2000 Season

Variety	Governorate	Buyer	Kentars	Ave. Grade	Ave. G.O.
G-86	Kafr Sheikh (51 cooperatives)	Nile Ginning Tanta Total	44,989 34,092 79,081	Good +3/16	117.0
G-89	Gharbiya (250 cooperatives)	Nile Ginning Al Watany Tanta Total	64,240 12,465 37,637 114,342	Good+1/8	117.5
G-85	Sharkia (25 cooperatives)	Nile Ginning Al Watany Tanta Total	23,260 5,813 770 29,843	Good+1/4	122.0
G-80	Minya (21 cooperatives)	Nefertiti	16,265	Good+1/8	119.2
G-83	Sohag (60 cooperatives)	Nile Ginning	16,710	Good+1/8	113.9
Total	(407 cooperatives)		256,241		

Source: CIT-HC.

5.4 Summary of Cooperative Activity

Table 5.5 provides a summary of seed cotton sales for all cooperatives. In total, the cooperatives sold 35 percent of their seed cotton to the six public trading companies and 65 percent to private companies (including EMEPAC). It is presumed that the private traders received the bulk of the cotton collected by the cooperatives because they were willing, and able, to pay a slight price premium. Public companies were most likely prohibited from payment of any price premium over and above the official prices.

The share sold to the private sector differed significantly by variety. No seed cotton of variety Giza 45 was sold to any private company. The private companies (including EMEPAC) bought 48 percent of the ELS cotton, 63 percent of the LS varieties, and 91 percent of the MLS varieties of cotton collected by the cooperatives.

Table 5-5: Sales of Seed Cotton by all Cooperatives to Public and Private Traders, 1999-2000 Season

	SALES (Kt.)				PERCENT		
Type and Variety	**Public Sector**	**Private Sector**	**EMEPAC**	**Total**	**Public**	**Private**	**EMEPAC**
Giza-45	845			845	100	0	0
Giza-70	54,548	43,129	8,150	105,827	51.5	40.8	7.7
ELS	55,393	43,129	8,150	106,672	52.0	40.4	7.6
Giza-86	195,450	131,194	22,970	349,814	55.9	37.6	6.6
Giza-89	68,103	226,213	9,600	303,908	22.4	74.4	3.2
Giza-85	40,961	122,684	6,600	170,231	24.1	72.1	3.9
LS	304,514	480,091	39,170	823,775	37.0	58.3	4.8
Giza-80	10,513	54,738	19,355	84,605	12.4	64.7	22.9
Giza-83	1,035	41,042	4,105	46,182	2.2	88.9	8.9
MLS	11,548	95,780	23,460	130,788	8.8	73.2	17.9
Total	371,455	619,000	70,780	1,061,235	35.0	58.3	6.7

In total, the three groups of cooperative societies provided 1,229 local, village level, cotton collection centers at which farmers could deliver their seed cotton this season. This gives farmers in these areas an additional marketing choice, in addition to the PBDAC rings and the private traders. The more options for the farmer, the more competition will likely occur and the better the service he will likely receive. These cooperatives paid growers the same prices this season as were offered at the PBDAC rings, but they compete on the basis of service, and based on our farmer survey, did provide faster payment to the farmers than did PBDAC.

We expect that cooperatives will play a bigger role in cotton marketing in the future. This expectation is based on two factors; 1) farmers will choose to sell to their cooperatives if the cooperatives continue to make quicker payment for the cotton and do not withhold cash for payments on accounts due them, and 2) private traders will buy from the cooperatives if they are limited in the number of PBDAC rings they are allocated. This shift from the PBDAC rings back to the cooperatives as collection centers may, however, put considerable market power in the hands of a few cooperative leaders at the national

level. These cooperative officials may limit access to seed cotton to a few favorite private traders. This development will bear watching in the future.

6. TRADING OF SEED COTTON BY PRIVATE TRADERS

6.1 Private Trading Options

Private trade in seed cotton was permitted during the 1999-2000 season. Private traders were permitted to contract with PBDAC to purchase all of the cotton delivered to designated sales rings or they could buy cotton from cooperatives or directly from producers.

In previous seasons the private traders had first option in selection of the sales rings and the remaining rings were distributed among the public companies. In the 1999-2000 season the PBDAC sales rings were distributed in late August 1999, which was prior to the announcement of the export prices and the deficiency payment scheme. Thus, private traders had to make decisions on buying through the PBDAC sales rings without full knowledge regarding export prices or the deficiency payment scheme. Traders may have made different decisions on purchases at the PBDAC rings if they could have made these decisions at a later date.

Traders were also permitted to buy directly from producers, outside of the PBDAC sales rings or the cooperative societies, on their own negotiated terms. However, the trader would lose the deficiency payments with this type of purchase since he had no official receipt to present to the government for reimbursement. An official receipt was needed to prove that the official price had been paid for the seed cotton.

6.2 Registered Traders

Between 1994 and March 2000 a total of 205 companies or individuals had applied for and had been approved as registered cotton traders. The CIT-HC has the responsibility of processing the requests for registration.[22] The rules for registration of domestic cotton traders are specified in Section II of Law 210 of 1994. The major criteria for registration are that the applicant: 1) must be an Egyptian citizen, 2) must not have a criminal record or record of bankruptcy, 3) must have a licensed place of business, and 4) must have a capital of LE 30,000 and make a refundable cash deposit of LE 3,000.

Following is a classification of the registered cotton traders since liberalization was initiated in 1994.

Year of Registration	Number Registered	Have Canceled	Remain as Registered
1994	58	16	42
1995	89	37	52
1996	35	18	17
1997	7	2	5
1998	8	1	7
1999	8	0	8
Total	**205**	**74**	**131**

[22] Lists of registered traders are available from the CIT-HC.

These registered cotton traders were classified as follows:

Type of firm		March 1995	July 1995	Nov. 1995	April 1997	Jan. 1999	Oct. 1999	March 2000
Public firms:								
Ginning companies	5	5	5	5	3	3	3	
Trade and Export companies		8	11	11	11	12	12	12
Spinning mills	6	11	11	12	13	14	13	
Holding company		---	1	1	1	1	1	1
Cooperatives		3	6	11	14	15	15	15
Private trading companies		19	33	56	67	60	64	58
Private individuals		33	38	52	52	34	34	29
Total		**74**	**105**	**147**	**162**	**138**	**143**	**131**

These data show that many traders registered during the first three years of market liberalization (1994-96). However, 27 traders or companies canceled their registration during 1997 and 32 more canceled during 1998. During the 1997-98 season the floor price for seed cotton was high relative to export prices for lint and it was impossible for a private trader to make a profit on seed cotton. During the 1999-2000 season three more private firms registered but 15 private firms or individuals have canceled their registration. Most of those individuals who cancelled this season had registered in 1994 to 1996.

6.3 Unregistered Traders

In addition to these registered traders there are known to be many cotton traders who are not registered (13, Page 29). These traders have been surveyed by MVE during the last two marketing seasons (7). The number of such traders who operated in 1999-2000 likely declined from the previous season due to the various GOE policies.

It appears that these traders operate quite openly without interference from any GOE authority. However traders without registration cannot deliver cotton to gins, cannot obtain loans for cotton trading from any public bank and likely could not receive any deficiency payments. Some of these traders are cotton producers who mainly buy from neighbors and sell at the PBDAC rings or to other private traders. It was even reported in our survey that some farmers loan money to neighbors to finance their operations but are repaid with cotton so they unwillingly become cotton traders. As stated elsewhere some of this buying is simply a matter of financial liquidity. Most farmers, even with small areas of cotton hire workers to pick cotton and need cash to pay them. As reported in discussion of the grower's survey (Chapter 3) PBDAC does not pay immediately for cotton delivered but must wait for grading and testing. Growers in desperate need for cash will sell some of their cotton to neighbors even at discounted prices.

6.4 Survey of Small Traders

A considerable effort was made by MVE to gather data on cotton trading by the private sector. Due to the order in which the governmental decisions were made this season it appeared that few private traders would request PBDAC rings this season. Also, private trade outside official channels would

be at a disadvantage since the trade was informed that such sales would not qualify for deficiency payments. Thus, the decision was made to interview a large number of small private traders to determine how many of these traded cotton this season, how they traded, and to obtain their opinions regarding the cotton market this season (Table 6.1).[23]

This survey was conducted at the same time that the grower survey was conducted and in the same six major governorates and by the same six enumerators. The sample frame for this survey consisted primarily of a list of the small private traders who had been interviewed in 1998-99. Thus, in some respects, this survey is a continuation of similar surveys conducted in 1997-98 and 1998-99 (7). But in addition, these traders were asked to provide names of other private traders. Those names were then added to the sample frame. Essentially, every trader that could thus be added to the list in these governorates was interviewed. This sampling procedure produced a sample of 94 traders. Five of the traders included in this survey were removed from the data summaries because they were also included in the tabulation of the large private traders below leaving a sample size of 89 small traders.

6.4.1 Description of Traders

Data describing the traders in the sample are given in Table 6.1. Almost half (44 %) of the traders interviewed were registered (39 out of 89). This does not mean that almost half of all cotton traders in the country are registered. The sample was selected in such a manner that it is biased toward the larger traders, which are registered. Most of the registered traders in our sample (82 %) obtained their registration in the first two years of cotton market liberalization, 1994 and 1995.

We find that 64 of the 89 traders in the sample traded cotton this season. We will later examine some data collected from those who did not trade this season and their reasons for not trading. Of the 64 traders who participated in this season's market, only 20 were registered (31 %) and 44 were not registered (69 %).

These traders have had experience in cotton in several areas but mostly in a family business or with the cooperatives. Two thirds of these traders reported that they also trade other agricultural commodities. Buying wheat was reported by 45 traders, buying maize by 46, buying rice by 44, selling fertilizer by 13, selling pesticides by 7, selling animal feed by 9 and selling other agricultural commodities by 13 traders. Of the 89 traders in the sample, half of them (44 of 89) reported that they also were farmers and 33 of the farmers reported that they grew cotton (not necessarily this season). Participation by these traders in other commercial activities should be expected since cotton trading is a very seasonal activity. This response is similar to the responses received from private traders surveyed last season (7, page 12).

It is interesting to note that most (80 %) of the 64 traders who were active in 1999-2000 season had worked in 1994-95, the first year in the current era of private trade (Table 6.2). Many of these traders did not trade cotton during some of the intervening years when cotton trade was not attractive.

[23] An English translation of the questionnaire used in this survey is included in Annex III.

Table 6-1: Characteristic of Small Private Traders

	Governorate						
Item	**Behr.**	**Daqa.**	**Ghar.**	**Shar.**	**B.Suef**	**Fyom.**	**Total**
No. traders interviewed	15	14	14	18	14	14	89
No. registered traders	6	6	5	7	4	11	39
Year of registration							
1994	3	5		3		2	13
1995	2		3	3	1	9	18
1996	1	1	1				3
1997			1				1
1998							0
1999				1	3		4
Traded cotton this season	9	8	8	18	12	9	64
Experience in cotton							
Family business	6	5	4	8			23
Cooperative marketing	2	2	1	8	7	4	24
Formal education		2	1				3
Work in cotton sector	1	1	3			1	6
Entered recently	2				2	3	7
Other activities							
Trade Ag. commodities	9	11	7	18	10	4	59
Trade non-ag commod.					5	1	7
Also a farmer	7	7	11	8	7	4	44
Grew cotton	6	1	7	8	7	4	33
Government job			2				2
Agro-business job	1			2			3
Non-ag. job	2	1		1			4

Table 6-2: Cotton Trading Activities in the Past Five Years of the 64 Traders

(No. of Traders)

	1998-99	**1997-98**	**1996-97**	**1995-96**	**1994-95**
Traded cotton for: Public company	9	5	3	8	16
Private company	29	16	8	15	35
Total	38	21	11	23	51
No. of Public companies	5	4	3	5	7
Private companies	9	7	5	8	12
Total	14	11	8	13	19

6.4.2 Activity this Season

The traders in the sample who participated in the cotton market this season did so in a variety of ways. Most of them (89 %) said they had their own trading business (Table 6.3) however, a sizeable share (42 %) also reported that they worked on a commission basis. Many traders regarded operating as a commission buyer as the same as operating their own business. Apparently they had considerable freedom in their activities. Only 5 of the 64 traders were employees of a trading company and only 3 of the 63 were partners with some larger trading company.

Table 6-3: Type of Participation in Seed Cotton Market this Season

(No. of Traders)

	Governorate						
Item	**Behr.**	**Daqa.**	**Ghar.**	**Shar.**	**B.Suef**	**Fyom.**	**Total**
Traded cotton this season	9	8	8	18	12	9	64
Have own trading business	8	8	6	18	9	8	57
Work on commissions	1	2	4	15	3	2	27
Partner in a company	1		1		1		3
Employee of a company	1		2	1		1	5

The predominate method of buying reported by this group of 64 buyers was buying directly from farmers. Table 6.4 reports the number buying by each method in each governorate and as the data show, some of the traders in the survey traded in more than one variety. Actually, of the 64 buyers in the sample, 62 reported buying directly from farmers, one reported that he had a private sales ring (in Fayoum), 10 bought from other traders and one bought from some other source. None of these traders bought from cooperatives. Officials in Cairo sold the cotton collected by the cooperatives. None of the local cooperatives or local traders were involved in these trades.

The vast majority of these traders (59 of 64 or 92 %) traded only one variety of cotton. Last season 66 of 67 private traders reported trading in only one variety (7, page 10). Fifteen of the 64 traders (23 %) reported that this season they paid the same prices as in the official price tables, and 49 said they did not. But of these 49 traders, 21 said that they used the prices at the rings "as a guide". An additional 13 traders said they based their prices on experience, and 15 said that they graded the cotton and determined the price.

Table 6-4: Method of Buying Cotton Reported by 64 Small Private Traders

	Governorate						
Item	**Behr.**	**Daqa.**	**Ghar.**	**Shar.**	**B.Suef**	**Fyom.**	**Total**
Traded cotton this season	9	8	8	18	12	9	64
Variety traded:	G70:8 G86:1 G89:1	G86:8 G85:1	G70:2 G86:2 G89:8	G85;18	G80:12	G83:9	
At private rings						1	1
Direct from farmers	8	8	8	18	11	9	62
Other traders	1	1		2	4	2	10
Other sources				1			1

In regard to the grades of cotton purchased, 53 traders (83 %) said they bought all grades of cotton. But the 11 remaining traders reported buying grades from Good - 1/4 up to Fully Good with most traders reporting buying grades Good to Good +1/4. Most cotton this season fell in these grades so essentially none of these traders were buying any special grades. Some traders state that a reason for buying cotton outside of the rings is to get the better graders of cotton, but these traders do not seem to be selective in their buying.

Almost all of the traders, (62 of 64) reported that they paid the full contract price immediately at the time of sale. As we learned above in Chapter 3, farmers consider quick payment as an important aspect of the cotton trade. Apparently the differences in prices offered are quite small, and hence the non-price variables are important and sometimes are the factors what make the sale.

6.4.3 Buyer's Problems

The two major problems that were reported by these traders were problems with grading and financing (Table 6.5). One fourth of the traders reported that they had problems with grading and 47 percent indicated problems with financing. Many of the large traders reported that they provided financing for the local traders who buy cotton for them on a commission basis. Apparently all traders do not do so.

The problems with the grading were not delineated. Usually such traders try to evaluate or grade the cotton themselves and then buy the cotton before it is graded by a CATGO grader. They may have trouble grading it themselves, i.e. they may be overvaluing it and paying too high of a price. They definitely would endure difficulties if they had bought high value cotton that was later determined to be of mixed varieties. In that case the cotton will be refused at the gins and must be sold as scarto.

Table 6-5: Problems Reported by Private Traders

(No. of Traders Reporting)

	Governorate						
Type of problem	**Behr.**	**Daqa.**	**Ghar.**	**Shar.**	**B.Suef**	**Fyom.**	**Total**
Number of traders	9	8	8	18	12	9	64
Grading	1	1	1	12	0	1	16
Transportation				3	1		3
Financing	9	5		15	1		30
Other problems		1	1	1	1		4

6.4.4 Financing Problems

Those traders who participated in the 1999-2000 season were directly asked if financing was a problem this season. To this question, 39 of the 64 traders (61 %) gave a positive response. The same 39 also said that they would have purchased more cotton if they had had more capital. One trading company, which purchased 21,000 kentars in 1999-2000, reported that if capital had been available they would have purchased 200,000 kentars of seed cotton this season. Of the remaining 38 traders, they reported that they would have purchased a total of 129,500 additional kentars, or 3,400 kentars each. These traders reported actual average purchases of 1,800 Kt. directly from farmers in 1999-2000. It is pure speculation whether these traders would have actually bought those reported quantities of cotton, but these responses indicate that capital shortage was a severe limitation to trading volume for some traders, and that substantial increases in private trading would have occurred if adequate financing had been available.

These 64 traders were asked to indicate the sources of their funding for their cotton purchases (Table 6.6). By far the major source was from their own capital, with over half of them (33 of 64) reporting that they provided at least 80 percent of their own capital. The only other major source of financing were the advances from the private trading companies to buyers on commissions. Particularly noteworthy here was that not a single trader received any financial capital from a private bank. Also note that three traders reported that they were backed by public cotton trading or ginning companies which reportedly did not purchase seed cotton from traders this season.

6.4.5 Marketing Costs

The major cost item reported by the buyers was the cost of sacks (Table 6.7). New sacks cost LE 7/ sack but some traders reduce costs by reusing old sacks. The cost of the sacks, which averaged LE 5.60/kentar, represented 55 percent of their total costs. However, when a trader sells the cotton the buyer will probably pay for the sacks, or if the cotton is ginned he will get the sacks back and many of the sacks will be reusable. Hence the total net costs for sacks is much less than the estimates provided here.

The 2nd major cost item reported was transportation and the 3rd was labor for loading and unloading. These two items together totaled LE 3.27. Expenditures for CATGO graders varied considerably between traders. Obviously few of these traders called on CATGO graders because CATGO charges LE 1.70/Kt for grading at a gin and LE 3.40/Kt. for grading at a private sales

Table 6-6: Sources of Capital Reported by 64 Private Traders

(No. of Traders)

	Percent of Financing for cotton purchases					
Source of Financing	**1-20**	**21-40**	**41-60**	**61-80**	**81-100**	**Total No.**
Own capital	4	5	8	8	33	58
Private trading co		4	5	1	3	13
PBDAC	1	1	1		1	4
Public trading co			1		2	3
Relatives	2	1				3
Friends-neighbors	1			1	1	3
Public bank			2			2
Other	1		1		1	3

ring (9, Annex VI). Based on these reported expenditures and the CATGO charges, only 8 percent of the cotton bought by these traders was graded by CATGO graders.

6.4.6 Preferred Method of Buying

Ninety five percent of these traders reported that they prefer to buy cotton directly from farmers. About 60 percent of these traders prefer this method because they think it is the easiest way to buy cotton and the other 40 percent reported that this method of buying was the most profitable.

6.4.7 Quantities Purchased

These 64 private traders purchased an average of 2,386 Kts. of seed cotton (Tables 6.8 to 6.10). However, the quantity purchased varied greatly with the method of purchase and the variety. Almost 3/4ths (73 %) of the cotton purchased by these traders was purchased directly from farmers and 20 percent from other traders.

Table 6-7: Private Traders Average Buying Costs

(LE per kentar)

	Governorate						
Cost item	**Behr.**	**Daqa.**	**Ghar.**	**Shar.**	**B.Suef**	**Fyom.**	**Total**
Sacks	7.00	4.71	6.63	6.11	5.17	3.50	5.60
Transportation	2.72	1.75	2.25	2.47	2.71	1.92	2.37
Loading-unloading	.61	.43	1.63	1.53	.58	.94	.90
CATGO grading			.38	.12	.26	1.01	.28
Other grading					.07		.01
Security guards	.02	.11		.01	.02		.03
Other labor	1.11	1.00	.12		.31	.60	.43
Official costs		.14	1.13		.31	.02	.23
Other			.12		.92	1.12	.35
Total	11.46	8.03	11.25	10.24	10.40	9.10	10.19

Table 6-8: Quantities of Seed Cotton Purchased by the 64 Sample Private Traders, by Type of Market and Governorate

(Seed Kentar)

	Governorate						
Method of buying	**Behr.**	**Daqa.**	**Ghar.**	**Shar.**	**B.Suef**	**Fyom.**	**Total**
Directly from farmer	1,810	3,955	25,965	50,074	16,725	12,949	111,478
Other traders	8,000	185		2,000	20,125	90	30,400
Private sales rings						9,720	9,720
Other sources*				1,125			1,125
Total	9,810	4,140	25,965	53,199	36,850	22,759	152,723

*This response probably indicates that some traders did not want to reveal their activities.

These traders reported only one private sales ring (in Fayoum). It is the only known successful privately operated ring in the country. ATICOT, a large private trader, opened two private rings in Minya but received no cotton this season. They did not have cotton graders on hand and thus farmers choose to deliver their cotton to the PBDAC rings.

Table 6-9: Quantities of Seed Cotton Purchased by the 64 Sample Private Traders, by Type of Market and Variety

(Seed Kentar)

	Variety						
Method of buying	**G-70**	**G-86**	**G-89**	**G-85**	**G-80**	**G-83**	**Total**
Directly from farmer	3,010	21,125	7,265	50,204	16,725	12,949	111,478
Other traders		8,185		2,000	20,125	90	30,400
Private sales rings						9,720	9,720
Other sources*				1,125			1,125
Total	3,010	29,510	7,265	53,329	36,850	22,759	152,723

*See Table 6.8.

Private traders and village cooperatives with a small volume of cotton had difficulty obtaining a CATGO grader to come frequently to their ring. The CATGO graders did not want to come to a ring weekly if the volume of cotton was small, but if the CATGO grader did not come often then the farmers would have to wait for a long time to sell their cotton and they would sell their cotton some other way. Thus, the availability of a CATGO grader could determine the success or failure of a private ring.

Seed cotton purchased from other traders was in turn purchased directly from farmers. We know that none of this cotton came from PBDAC rings or from private rings.

Table 6.10 presents a distribution of the traders by total quantity purchased for the season. This distribution is rather bimodal. About half of the traders (32 of 62) buying from farmers traded between 100 and 1,000 Kts. while another group of 16 traders (26 %) traded between 2,000 and 5,000 Kts. Most of this 2nd group of traders were from Sharquia and were trading for or were themselves *dawaliib*.

The remaining traders were distributed over a wide size range of operation. Actually, one private trading company in our survey purchased a total of 21,000 kentars of three varieties of cotton directly from growers. But also, one trader reported purchases of only 15 kentars. So the full size range was from 15 kentars to 21,000 kentars. Excluding the trader who purchased 21,000 kentars, the 61 remaining traders purchased an average of 1,483 kentars each.

6.4.8 Sales of Cotton

For the sample as a whole, 69 percent of the cotton that was purchased was sold as seed cotton but all was sold as seed cotton in three of the sample governorates (Table 6.11). Ginning and sales as lint cotton was found in Fayoum, Beni Suef, and Sharquia. Some of this cotton in Sharquia was traded by the *dawaliib*.

Table 6-10: Classification of Traders by Method of Purchase and Size Class

Size Class (Kentar)	Private Rings	Directly From Farmers	Other Traders	Other Sources	Total
Less than 100		7	2		9
100-499		20	1		21
500-999		12			12
1000-1999		4	2	1	7
2000-4999		16	3		19
5000 or more	1	3	2		6
Total number	1	62	10	1	74
Average (Kentar)	9,720	1,798	3,040	1,125	2,351

Table 6-11: Sales of Seed Cotton and Lint Cotton by 64 Sample Traders

Governorate	Seed Cotton Purchased (Kentars)	Sold as Seed Cotton	Sold as Lint Cotton	Not Sold as Yet
Behira	9,810	9,810		
Daqahliya	4,140	4,090		50
Gharbiya	25,965	25,965		
Sharquia	53,199	23,452	19,252	10,495
Beni Suef	36,850	21,850	17,250	
Fayoum	22,759	19,759	3,480	
Total	152,723	104,926	39,982	10,545

Twelve of these 64 traders reported that their cotton would be ginned by the *dawaliib*. These are small, unofficial gins that use the cotton for mattresses or for furniture upholstery. The government regards these gins as illegal because many of them gin cotton of several varieties and the seed then becomes mixed and some is sold to farmers for planting. Eight of these traders reported that they owned these gins, which also must be *dawaliib*. Delivery to the *dawaliib* gins was reported only in Daqahliya (110 Kts.) and in Sharquia (11,400 Kts.).

The price of lint cotton used for mattresses and upholstery is currently LE 6/ Kg. Hence when cotton prices decline the value of cotton in these uses is as great or higher than the price paid by spinners for the lower valued varieties such as Giza 80, 83 and 85. For example, with a ginning outturn of 1.20 a seed kentar of Giza 85 will produce 60 kg of lint which would have a retail value of LE 360 and the seed would have a value of about LE 50 for a total retail value of LE 410. Thus a *dawaliib* operator can afford to pay a very competitive price this season. This price becomes a de facto floor price for cotton in that area. The major markets for these uses are in Cairo and Damietta and thus the *dawaliib* have traditionally operated mainly in Sharquia.

As was expected, most of these small traders sell the cotton they buy to private companies (30 of 62, and about 50 % the total sales, Table 6.13). As indicated earlier, most of these traders have worked

for various companies for several years. Selling to other traders was 2nd in number and selling at sales rings was 3rd. Most of the sales at PBDAC rings were in Behira governorate by traders of Giza 70.

Surprisingly, 8 of the 64 traders reported that they sold cotton this season to public trading companies and three to public gins for a total of about 30,000 Kts. or 25 percent of all sales. It had been reported that public trading and ginning companies were to buy only in the official sales rings; the PBDAC rings and the cooperatives.

Table 6-12: Types of Buyers to whom Small Traders Sold

(No. of traders)

	Governorate						
Item	**Behr.**	**Daqa.**	**Ghar.**	**Shar.**	**B.Suef**	**Fyom.**	**Total**
Domestic spinners				1	1	2	4
Other traders		3		4	8	1	16
Private trading company		7	4	13	4	2	30
Public trading company	1	1		4		2	8
Public gins			1	2			3
PBDAC Sales rings	8		5			2	15

Four of these traders sold directly to domestic spinners. The trade with spinners involved about 30,000 seed kentars (Table 6.13) which actually represented about 25 percent of the total sales by this group of traders. As we reported earlier (Chapter 4), local spinners purchased seed cotton directly at PBDAC rings this season for the first time in many years and also purchased large quantities of lint from the larger private traders.

6.4.9 Inactive Traders

Slightly over 1/4th of the sample traders (28 %) did not trade cotton this season (Table 6.14). Of these 25 sample traders, 19 were registered traders. These traders were asked "What was the main reason why you did not trade cotton this season?" The reason given by 36 percent of this group was the uncertainty of the market, with financing problems as a close second place (32 %), while 12 percent said cotton trading was not profitable. This group was then asked to respond to a group of prepared reasons (Table 6.15) as to why they did not trade this season. The results here are very similar to the responses above, namely that market uncertainty and financing problems were the major causes listed. "Changes from last year" means changes in government regulations. This item contributes to, and may be a major cause of the market uncertainty.

6.4.10 Sources of Market Information

All 89 traders in the survey were also asked to respond to some questions about their sources of information and they were given a chance to express their opinions on several matters (Tables 6.16 and 6.17). These traders indicated that the MALR was the best source of information about cotton production and the ALCOTEXA was the best source of information on cotton prices.

Table 6-13: Quantities of Cotton Sold by the 64 Traders, by Type of Buyer

	Governorate						
Type of buyer	**Behr.**	**Daqa.**	**Ghar.**	**Shar.**	**B.Suef**	**Fyom.**	**Total**
Local spinner (seed)						2,718	2,718
(lint)				12,112	17,250	3,480	32,842
Other traders (seed)		1,140			7,150	71	8,361
Other traders (lint)				7,140			7,140
Private Trade Co.		2,730	10,650	17,402	14,700	15,220	60,702
Public Trade Co.	8,000	220		5,000		650	13,870
Public Gin			15,000	1,050			16,050
Sales ring	1,810		315			1,100	3,225
Totals (seed cotton)	9,810	4,090	25,965	23,452	36,850	19,759	104,926
(lint cotton)				19,252		3,480	39,982

Table 6-14: Voluntary Responses as to Why Private Traders did not Trade Cotton this Season

	Governorate						
Item	**Behr.**	**Daqa.**	**Ghar.**	**Shar.**	**B.Suef**	**Fyom.**	**Total**
Sample Size	15	14	14	18	14	14	89
Number of traders	9	8	8	18	12	9	64
No. who didn't trade	6	6	7		2	5	25
Reasons not trading (No.)							
Market uncertainty	2	3	3			1	9
Financing is not available	1	3	1		1	2	8
Both of the above	2						2
No profit in cotton	1		1			1	3
Low production			1				1
All other		1	2		1	1	5

These traders were asked to compare international cotton prices this season with prices of last season, the responses were: "the same" = 57; "lower" = 31 and "higher" = 1. In reality, international prices were much lower this season than last season. Hence these results indicate that these traders were not well informed on this issue. On the other hand, the tables of official prices of seed cotton, which these traders relied on in their trading, were the same as last season and Joint Ministerial Decree 1014 stated that the seed cotton prices were to reflect the international prices.

Table 6-15: Responses to Specific Questions Regarding Reasons for not Trading Cotton this Season

(No. of Responses)

Possible reasons	Yes	No
Uncertainty about the market	17	8
Lack of financing	16	9
Changes from last season	16	9
Lack of information	7	18
Changes during season	7	18
Reduction in export prices	6	19
Didn't know GOE regulations	4	21
No chance to get PBDAC rings	2	23

Table 6-16: Sources of Information about Cotton Production in Egypt

	Governorate						
Item	Behr.	Daqa.	Ghar.	Shar.	B.Suef	Fyom.	Total
Sample Size	15	14	14	18	14	14	89
No who listed:							
MALR	12	6	12	13	14	14	71
ALCOTEXA	4	7		8			19
Other traders	3	4		1			8
Gin companies				2			2
Radio and TV	1				2	2	5
Trading companies	1	3		8			12

Table 6-17: Sources of Information about Cotton Prices in Egypt Reported by Private Traders

	Governorate						
Item	Behr.	Daqa.	Ghar.	Shar.	B.Suef	Fyom.	Total
Sample size	15	14	14	18	14	14	89
No. who listed:							
MALR	2	4	2	5	2	1	16
ALCOTEXA	12	10	5	14	13	14	68
Other traders	2	7	2			3	14
Gin companies		2		2			4
Radio and TV	2				2		4
Other companies	1	5	3	11			20
PBDAC rings	1		8				9

6.4.11 Plans for the Future

The 89 traders were asked if they would trade cotton in the future. The majority (84 %) said that they would trade cotton in the future. It is encouraging to note that these traders have not been discouraged by the market uncertainties of recent years. Of the 75 that said they would trade cotton, 48 traders (64 %) said they would do so because it is profitable and 12 said they would trade because they think the market will get better in the future. This means that of the 25 traders, who did not trade this year, 11 will return to the cotton market in the future. Of the 14 that said they would not trade cotton in the future, nine said they would not because the government regulations are too uncertain.

6.4.12 Setting Floor Prices for Cotton

Most of these traders (71 %) believe that the GOE should set floor prices for seed cotton for next season. The remainder of the traders prefer that the prices should be set by supply and demand. A majority of those who want floor prices (39 of 63) believe floor prices are needed to encourage farmers to grow cotton.

6.4.13 Comparison of Market with Last Season

Traders were asked: "Was the market more competitive this season than last season?"
Of the 89 traders, 81 percent said "No" and only 19 percent said "Yes". Most (82 %) of those who said, "Yes" did so because they said that prices were changing. Of those who said "No", 58 percent did so because they thought the rings were distributed to the large traders only. An additional 11 percent (8 traders) said that the government was subsidizing those traders who bought at the rings, and 13 percent (9 traders) said "No" because the prices at the rings are fixed, not competitive.

6.5 Seed Cotton Trading by Large Private Traders

The survey discussed above included mainly smaller private traders who do not export cotton and most of whom did not deliver cotton to the gins. In addition, many of the larger traders, both public and private, were interviewed (See Annex III)[24]. The sample size here consisted of three public firms and 15 private firms.

These private firms obtained seed cotton from three sources; PBDAC sales rings, cooperatives, and from traders or brokers, including each other (Table 6.18). These large private firms reported buying about 147,000 kentars of seed cotton from other private traders, brokers or directly for farmers. CIT-HC also reported deliveries to gins by other small companies so that total deliveries to the gins, obtained from purchases directly for growers, was about 168,400 Kts.

The results from the survey of small traders indicate that the quantities sold by the small traders to other private traders and private companies totaled about 70,000 kentars (Table 6.13) and was very likely

[24] The questionnaire was primarily a guide for discussion since in most cases many other additional topics were discussed.

all included in this 168,400 kentars. The small private traders reported other sales to *dawaliib* (Table 6.11), which are not included in the 168,400 Kts.

Hence, included in Table 6.18 is an estimate of purchases of 30,000 Kt. by other traders not listed, all of which were assumed to be delivered to the *dawaliib*. In the survey of small traders discussed above, these traders willing reported that they were selling over 11,000 KT to the *dawaliib*. Our past experience with these types of traders is that they tend to under-report this type of activity and only a small share of these traders are willing to report this activity at all. Thus we estimate that in the entire country 30,000 Kt, ***at a minimum***, and perhaps more, were sold to the *dawaliib*. Estimates of sales to the *dawaliib* by variety were also made, but these estimates are not very dependable. Since Sharquia governorate seems to be the area of concentration of the *dawaliib*, we estimated that 20,000 kentars of Giza 85 were sold to the *dawaliib*. Table 6.19 contains estimates of sales to dawaliib by variety.

6.6 Total Private Purchases and Deliveries to the Gins

Thus, in total we estimate that the private sector purchased about 198,400 kentars through private traders or brokers outside of the PBDAC rings and cooperatives. This represents about 5.3 % of the total seed cotton crop. Including the sales to the *dawaliib*, private traders (including EMEPAC) traded a total of 1,760,740 kentar in the 1999-2000 season, which was 44.6 percent of the total crop of seed cotton (Table 6.18). The private traders obtained 873,404 kentars (49.6 %) at PBDAC rings, 689,780 kentars (39.2%) from cooperatives and 197,556 kentars (11.2 %) through private traders and brokers direct from growers (Figure 2). Of the 44.6 percent purchased by private firms, EMEPAC purchased 6.5 percent leaving 38.1 percent for the other private firms.[25]

6.7 Preferred Methods of Buying Seed Cotton of Private Firms

Private companies differ in their preferences regarding the method of buying cotton. Thirteen private firms bought cotton at the PBDAC rings. Al-Watany reported that the export prices were not known at the time the PBDAC rings were distributed and they were reluctant to make commitments to buy seed cotton with so little knowledge of selling prices. Of course, other firms faced this situation as well. The price uncertainty prompted Al-Watany management to avoid commitments to buy at the PBDAC rings. Later, when the deficiency payments scheme was announced, traders were led to believe that deficiency payments would not be paid on cotton purchased directly from farmers, since documentation of the price paid would not be available. Hence the management of Al-Watany felt that their only choice for buying was through the cooperative societies.
Many companies, including Tanta Company, said they would have preferred to buy more, or all of their cotton through the rings but they didn't get the number of rings they requested. Many traders report that the major reason for buying cotton at the rings or through cooperatives is that these methods are

[25] EMEPAC, also known as El Bostania, has close ties with the Horticultural Service Unit in MALR and has an exclusive arrangement to obtain all of the lint from cotton grown for seed multiplication purposes. It does not compete in seed cotton purchases, as do the other private firms. Full details on the operations of this company were not available since the management of this company chose not to cooperativeerate in making their data available.

just easier than buying directly from farmers. Nefertiti chose to buy cotton from farmers at its gin in Minya and through the cooperative societies. The company management reported that they do not want to buy through PBDAC rings because they want to select the cotton they buy. They do not want to be obligated to purchase all of the cotton delivered to the rings. The main concerns seem to be the requirement to take all of the cotton delivered to the rings or cooperative collection centers versus the extra costs involved in buying directly from individual farmers.

The quantity of purchases from traders and brokers varied considerably between companies. Some companies avoided this method because they were told that they would sacrifice the deficiency payment if they bought via this method. One company bought the bulk of its cotton from the PBDAC rings but had contracts with spinners and had to buy a small amount this way to fill its contracts.

The increase in sales by the cooperatives this season is considered to be mainly due to the fact that private companies did not obtain the number of PBDAC rings requested and due to the announcement regarding deficiency payments. The cooperatives were designated as official markets, in terms of deficiency payments. After the PBDAC rings had been allocated, some of the private traders, who had not received the number of rings that they had requested, began to negotiate with the cooperatives to purchase additional cotton. In 1994, the first year of market liberalization, Al-Ahli Company bought 30 percent of the entire seed cotton crop through cooperatives (6, Table A-3).

6.8 Concentration in the Private Sector

Several new private firms entered the seed cotton market this season. As many as 10 new firms started to buy seed cotton, gin it and sell it as lint cotton this season. Most of these new firms bought cotton only directly from growers. This in crease in numbers is a healthy situation in terms of competitiveness. Freedom of entry of new firms is a necessary condition for a competitive market. The larger the number of private firms, the more competitive will be the market with the benefit of higher prices being passed to the farmers.

Another sign of a healthy, competitive market is a low degree of concentration (Table 6.20). The private sector firms delivered 44.6 percent of the seed cotton to the gins this season. This included 18 firms, including EMEPAC, listed in Table 6.18, plus some additional firms. Excluding EMEPAC, the remaining 17 firms delivered 37.7 percent of the seed cotton to the gins. Four of these 17 firms resold their seed cotton to larger private firms and one firm sold all of its seed cotton to a public gin. Hence, we have 12 remaining private firms that resold their cotton as lint cotton.

The largest of these 12 private firms, Modern Nile, traded over a third (38.2 %) of the private market share and 14.4 percent of the total seed cotton. It had a volume that exceeded that of any public trading firm. Each of the public trading firms traded about 8 percent of the seed cotton. Last season, the largest private firm, the same firm) purchased 54 percent of the entire private market share.

Another healthy development this season was the entry of four spinning companies into the seed cotton market. Also, in our survey of small traders (Tables 6.12 and 6.13), three small traders reported selling their seed cotton to gins.

The CIT-HC reported that there were 5 other small firms and several individual brokers included as "other" in the data they reported (Table 6,18). Thus, in total, there were six public trading companies, three public ginning companies, four spinners, 23 private firms and some individual brokers, for a total of 36 companies and a few individuals which bought seed cotton and delivered it to the gins[26]. ***This is by far the greatest number of companies that have delivered seed cotton to gins in Egypt in 35 years***. Just last season, 1998-99 the total number of companies delivering cotton to the gins was only 19 (9 public and 10 private).

6.9 Information Needs

This seems to be a season when traders were frequently expected to make decisions with poor information. The PBDAC rings were distributed before the export prices were known, so the buyers were expected to make commitments on buying seed cotton without knowing what he could sell it for. If the prices turned out to be too low, then he could cancel his agreement to accept the rings that had been allocated to him.

As stated earlier, small traders were very poorly informed about international prices. As in prior years, most private traders continue to report that the production data provided by the MALR during the marketing season are not reliable. Even the public trading companies use their field staff to assemble production estimates, which they rely on, in place of the MALR published estimates.

Table 6-19: Seed Cotton Purchased Directly From Growers

(Kt.)

Variety	Delivered to official gins	Delivered to *Dawaliib*	Total
Giza 70	105	---	105
Giza 86	45,689	2,000	47,689
Giza 89	38,296	2,000	40,296
Giza 85	40,440	20,000	60,440
Giza 80	32,727	3,000	35,727
Giza 83	10,299	3,000	13,299
Total	167,556	30,000	197,556

Source: Deliveries to official gins from CIT-HC, Deliveries to *dawaliib* estimated.

[26] As stated before, there were many more private traders buying directly from farmers. Only three of these 36 firms bought exclusively from farmers.

Table 6-18: Seed Cotton Purchased by Private Companies and Delivered to Gins and *Dawaliib*, 1999-2000

(Seed Kentar)

Company	PBDAC Rings	Cooperative Societies	Traders & Brokers	Total
Modern Nile	273,013	279,061	721	552,795
Tanta Trading Co.	75,444	72,499	103,177	250,820
Nile Ginning	48,075	149,199	20	197,294
El -Dabbah (ATICOT)	45,656	38,486	7,067	91,209
NASSCO	99,093	---	127	99,220
Talaat Harb	39,183	26,613	7,750	73,546
El-Mabrouk	28,935	---	10,269	39,204
Al-Watany	—	36,877	203	37,080
Benha (Al-Attar)	28,450	---	1,694	30,144
Dawlia	22,668	---	---	22,668
Nefertiti	—	16,265	12,355	28,620
M. Abdel Rahman	17,066	---	---	17,066
El Sayed/Madawi	8,636	---	---	8,636
Shamal El Saeid	2,988	---	---	2,988
El Safa	---	---	7,000	7,000
Sekem	---	---	2,308	2,308
Al Shark	---	---	944	944
Others			13,921	13,921
Total of above	688,907	619,000	167,556	1,475,463
EMEPAC (El Bostania)	184,497	70,780	---	255,277
Dawaliib			30,000	30,000
Total private purchases	873,404	689,780	197,556	1,760,740
Percent of purchases	49.6	39.2	11.2	100.0
Percent of crop	22.1	17.5	5.0	44.6

Sources: Data on total deliveries to official gins from CIT-HC. Estimates of purchases of some smaller companies obtained from the companies. Deliveries to *dawaliib* estimated by authors.

Figure 2: Sources of Seed Cotton of Private Trading Companies

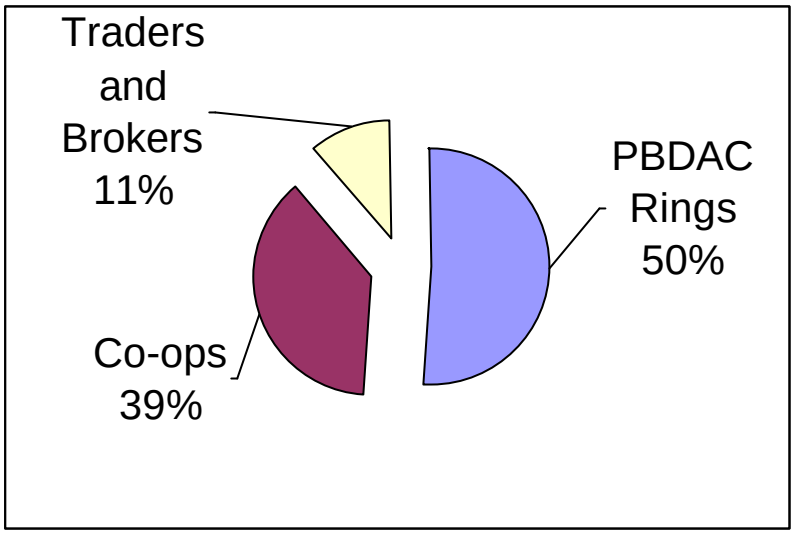


Table 6-20: Concentration of Private Sector Firms in the Seed Cotton Market

Private firms ranked by share Of market	Percent of private sector deliveries to the gins	Percent of total seed cotton deliveries to the gins
Firm #1	38.2	14.4
Firm #2	17.0	6.4
Firm #3	13.4	5.0
Firm #4	7.3	2.8
Firm #5	6.7	2.5
Firm #6	5.0	1.9
Firm #7	2.7	1.0
Firm #8	2.5	0.9
Firm #9	2.0	0.8
Firm #10	1.9	0.7
Firm #11	1.5	0.6
Firm #12	0.6	0.2

Two of the private trading companies have developed their own techniques and market information system for buying seed cotton. One company has invested in equipment to determine the micronaire of the cotton fibers. They set samples of cotton from throughout the growing areas and use that information to select the areas and then the sales rings that they want to buy in. A second company, and perhaps other traders do this as well, tested the ginning outturn of the seed cotton in many areas before they decided what areas in which to buy cotton and what price to pay.

6.10 Market Uncertainty

Practically every private trader, small or large expressed the opinion that the uncertainty of Government policies and regulations was the biggest single problem they face in cotton marketing. They point to the changing market rules from one year to the next and the changing policies even within a year to illustrate their point. One registered trader pointed out that no one can depend upon cotton trading as his only source of income. He pointed out that since privatization was started in 1994 there have been some years when it was impossible for the private trader to make any profit in trading seed cotton (1996-97). And so a businessman must depend on trading other commodities or doing other things besides cotton. He must have other income. This trader's observations are borne out by the survey data. In the survey of small traders (Table 6.1), it was found that most of these traders trade many agricultural commodities. The same is true for many of the larger private cotton traders. Few if any of the large traders confine their business activities to cotton. Some have other business interests within cotton besides trading, some trade other agricultural commodities, and others have business interests outside of agriculture. They find the cotton market too uncertain to depend upon it as their only source of income.

7. TRADING OF SEED COTTON BY PUBLIC COMPANIES

7.1 Purchases of Seed Cotton by Public Trading Companies

The public trading companies reported that they were not permitted to purchase cotton directly from growers this season, or did any of the public companies purchase seed cotton from the credit cooperatives. The public companies were required to purchase only through official channels because of the deficiency payment scheme. Official receipts would be needed to document all sales. The public trading companies made purchases from the Agrarian Reform and the Land Reclamation Cooperatives with 82 percent of their seed cotton purchased at the PBDAC sales rings and 18 percent coming from cooperatives.

However, in the survey of 89 small private traders, 8 traders reported that they sold cotton which they purchased directly from farmers to one or more of the six public trading companies and 3 traders reported that they sold seed cotton to the public gins. Three of these traders also reported that public trading companies had financed their buying operations. The total quantity of seed cotton involved in these trades was reported to be nearly 30,000 kentars. These quantities were probably reported by the public companies as purchases from PBDAC rings so that the total purchases, as reported in Table7.1, may be correct but the sources are slightly in error. In total, the six public trading companies purchased 47.6 percent of the seed cotton delivered to the official gins.

Table 7-1: Trading of Seed Cotton by Public Trading and Ginning Companies

(Seed Kentar)

Company	Purchased at PBDAC Sales rings	Purchased from Cooperatives	Total Delivered to the Gins
MISR Export	250,278	61,129	311,407
Alex. Commercial	224,523	68,157	292,680
Al Kahira	236,880	47,647	284,527
Alcotan	262,193	74,078	336,271
Eastern	238,343	54,781	293,124
Port Said	284,251	65,663	349,914
Total (Trading Cos.)	1,496,468	371,455	1,867,923
Delta Ginning	50,311	—	50,311
MISR Ginning	39,574	---	39,574
El-Wadi Ginning	61,511	---	61,511
Total (Public Gins)	151,396	---	151,396
Grand total	1,647,864	371,455	2,019,319

Source: CIT-HC, deliveries to 12 March 2000.

7.2 Seed Cotton Purchases by the Public Ginning Companies

The three public ginning companies reported that they confined their seed cotton purchases to the PBDAC sales rings (Table 7.1) (see paragraph above). The purchases of these three ginning companies declined drastically from 329,587 Kt. last season to only 151,396 Kt in 1999-2000 or 3.9 percent of the seed cotton. Since the gins were confined to purchases at the PBDAC sales rings, and these rings are allocated under the supervision of the CIT-HC, it was obviously a government policy decision to reduce the market share of these public gins. In effect, the reduction in seed cotton purchases by the public gins increased the amount of cotton available to be purchased by the public trading companies.

7.3 Seed Cotton Purchases by Domestic Spinners

For the first time in recent history, spinners entered directly into the seed cotton market. During the 1999-2000 season four domestic spinners requested and were granted
51 (6 %) PBDAC sales rings. These four companies purchased four percent of the total seed cotton crop (Table 7.2). Note that the spinners did not purchase any Giza 45 and very little Giza 70. In terms of quantity, they purchased mainly Giza 85 and 86 but they also purchased almost 10 percent of the Giza 80 crop. These varieties appear to be the choice of these spinning companies. These four spinners entered into an agreement with Delta Ginning Company, whereby Delta selected and managed the PBDAC sales rings and in return the spinning companies delivered most of this seed cotton to the Delta gins for ginning.[27]

It will be interesting to see if spinners continue to buy seed cotton in the future. Perhaps the spinning mills entered the seed cotton market this year only because of the small crop and fears of a short supply of lint. Perhaps direct purchases of seed cotton by the spinners will diminish the need for the public trading companies and more quickly lead to their demise. Some spinners were also more aggressive in buying lint cotton this season (see Chapter 10). Some of the traders in our survey of small traders also reported selling their cotton to domestic spinners (see Table 6.13).

In total, the public companies purchased 2,177,361 kentars of seed cotton this season, or 55.5 percent of the total delivered to the gins. Of this amount, 371,455 kentars (17 %) came from cooperatives and the balance of 1,805,906 kentars (83 %) came from the PBDAC rings. Actually, some of the 64 small traders interviewed reported that they bought 30,000 kentars of seed cotton this season directly from growers and resold it to public trading or ginning companies. This cotton was probable reported as received at PBDAC rings so actual receipts at PBDAC rings may have been about 1,775,906 kentars.

[27] A small amount of the seed cotton purchased by the spinning companies was designated for production of planting seed and thus had to be delivered to an El Nil gin that was designated by the MALR to gin this cotton..

Table 7-2: Purchases of Seed Cotton at PBDAC Rings by Domestic Spinning Companies, by Variety, 1999-2000

(Seed kentar)

Varieties							
Spinning company	**G-70**	**G-86**	**G-89**	**G-85**	**G-80**	**G-83**	**Total**
MISR-Iran	---	21,395	---	19,178	6,029	1,039	47,641
MISR- Mahalla	4,863	24,383	9,815	10,668	13,559	11,879	75,167
Daqahliya S & W	---	---	722	---	2,217	3,592	6,531
Tanta S & W	---	---	3,501	16,215	8,987	---	28,703
Total	4,863	45,778	14,038	46,061	30,792	16,510	158,042
Percent of crop	1.1	5.0	1.3	7.0	8.2	3.5	4.0

Source: CIT-HC. Final deliveries to gins.

8. GINNING

8.1 Ginning Outturn

The ginning outturns of all varieties except Giza 89 were higher this season than in the previous season. A high ginning outturn not only means more lint cotton per seed kentar but a high ginning outturn also indicates better cotton maturity which is correlated with better fiber strength. Thus, the crop this season was generally a better quality crop than the crop of last season. This improvement was most likely due primarily to the weather.

Table 8-1: Ginning Outturns by Variety, 1998-99 and 1999-2000
(Based on deliveries to gins up to 4 Dec. 1999 and comparable period in 1998-99)

Variety	1998-99	1999-2000
G-45	96	101
G-70	108	115
G-76	100	Not grown
G-77	107	Not grown
G-86	116	117
G-89	118	116
G-85	120	120
G-80	109	118
G-83	113	115
All Varieties	115.3	116.7

Source: CATGO

8.2 Trader's Choice of Gins

There currently are 6 ginning companies in Egypt, three public ginning companies, (MISR, Delta and El Wadi), two that formerly were public companies that have been sold to private owners (El Arabia and El Nil)[28] and one private trading company that built a new gin (Nefertiti)[29]. In the survey of large traders, these traders were asked if they had chosen the gins where their cotton was ginned. All public and private traders reported that they have complete choice in the selection of the gins where their cotton is ginned, within the limits of the varietal restrictions set by the MALR.

[28] See reference No. 6 for more details on the ownership of these private companies.

[29] Much more detail on the ginning sector is available in reference No.14.

Due to the MALR restrictions on ginning, (only one variety per gin and the ginning of seed cotton for planting only in designated gins) some companies must gin their cotton in gins owned by others. For example, Modern Nile purchased 116,000 Kt of Giza 85, but El Arabia Ginning has no gins in Sharkia, the major G-85 producing area, so Modern Nile was forced to gin this cotton in gins owned by other companies.

The data (Table 8.2) indicate that the public traders had a tendency to deliver their seed cotton to the public gins (76 %) rather than to the private gins (24 %). There were also rumors in the trade that the public traders were expected to deliver their cotton primarily to public gins.

In the survey of private traders, the traders reported that the ginning companies are generally competitive on charges for ginning and also may provide other services, such as the cost of transporting the seed cotton to the gin and storage of the lint cotton after ginning. ***Traders report that they can and do choose a specific gin*** on the basis of services, including the ginning charge, its location relative to their cotton sources, the equipment in the gin, the reputation of that specific gin for ginning quality, and the expected timing of the ginning service.

8.3 Market Shares of Ginning

Four ginning companies were engaged in cotton trading as well as ginning this season, the three public ginning companies (see Table 7.1) and El Nil Company. The Nefertiti gin, Shamal El Saiad, in Minya, did not trade cotton, however the Nefertiti Co. had buyers stationed at the gin to buy seed cotton delivered to the gin. This gin ginned only the cotton purchased by the Nefertiti Company.

El Arabia is owned by the Modern Nile Group, which also owns the Modern Nile Trading Company. El Arabia purchased seed cotton in prior years but all cotton trading this season by this Group was done by Modern Nile Trading and none by El Arabia. But again, Modern Nile buyers stationed at the El Arabia gins bought small quantities of seed cotton from growers. During this season, El Arabia ginned 150,875 Kt. for the six public trading companies, 503,434 Kt. for Modern Nile, and 107,968 Kt. for nine other private trading companies.

The El Nil Company ginned 378,810 Kts. for public companies in 1999-2000. It ginned most of the cotton that it purchased (198,000 Kt.) and about 68,500 Kt. for private trading companies including Modern Nile, Talaat Harb, Nassco, and Al-Bostania (EMEPAC) and also a small amount for Tanta Spinning Company.

Data were not available on quantities of cotton received by the public ginning companies classified by ownership. Data were available on total gin receipts for each company and data are also available on total ownership of seed cotton which were used to calculate the market shares (Table 8.2). Some estimates were made of shares ginned by each public company (Table 8.1) but these estimates are not critical to our analysis.

Delta Company has been more aggressive in recent years and has gained in market share as shown in Table 8.2 and Figure 3. The receipts of seed cotton at Delta were sharply higher than at MISR or El-

Wadi this season. Delta has formed a working partnership (no ownership relationship) with Nassco, a private company, whereby Nassco installed UD bale presses at three of the Delta gins. These three gins are in areas that produce Giza 70 and Giza 86, both export varieties, and of which Nassco purchased large quantities this season. Thus, Delta gins most of the cotton purchased by Nassco Company. Delta also ginned about 150,000 Kts. of seed cotton purchased by four spinners who are under the same holding company as Delta (Section 7.3).

Most of the gins of the MISR Company are in Upper Egypt where Giza 80 and 83 were grown. The private sector purchased 55 percent of the cotton in Upper Egypt this year. This brought MISR most of its business with the private sector.

Table 8-2: Deliveries of Seed Cotton to the Gins, by Ginning Company, 1999-2000

(Seed Kentars)

Ginning Company	Cotton Owned By Public Companies	Cotton Owned By Private Companies	Total (Kts)
El Arabia*	50,900	611,419	762,319
El Nil*	378,810	263,545	642,355
Nefertiti*	---	28,511	28,511
Delta	713,146**	340,000**	1,053,146
MISR	419,838**	230,029**	649,867
El-Wady	518,886**	243,029**	761,915
Total	2,181,580	1,716,533	3,898,113

Sources: Quantity of cotton reported by CIT-HC, El Arabia, El Nil, and Nefertiti. *Privately owned. ** Estimated. (Deliveries up to 28 Jan. 2000)[30]

The market share of the private sector declined s lightly in 1999-2000 relative to last season. This is true despite that fact that the private sector share of seed cotton purchases was higher this season. This strongly indicates that the public trading companies shifted, to some extent, from ginning in the private gins last season to more use of the public gins this season.

8.4 Privatization of Gins

El Arabia Company was privatized in October 1996 and El Nil Company in July 1997. No additional public gins have been privatized since then. Four private trading companies had expressed interest in buying Delta Company, closing some of the gins and dividing the remaining gins between them. However no deal could be struck with the GOE (14). The major stumbling block is the decision of the three relevant holding companies to retain the land on which these gins are located on a 25-year lease instead of selling the land. The GOE feels that El Arabia made windfall profits from closing gins and selling the land. The GOE wishes to avoid this profit-taking by the purchasing companies through leasing but not selling the land. This policy has stalled the privatization process.

[30] The estimates in this table differ from those in Tables 8-1to 8.4 and in previous chapters because of differences in data sources. The data provided by CIT-HC on final deliveries to the gins did not specify the gins delivered to.

Table 8-3: Estimated Market Shares of Ginning, 1999-2000

(Kentar and Percent)

Ginning Companies	Cotton owned By public Companies	Cotton owned By private Companies	Total
	(KT)	**(KT)**	**(KT)**
Private	529,710	903,475	1,433,185
Public	1,651,870	813,058	2,464,928
Total	2,181,580	1,716,533	3,898,113
	(Percent)	**(Percent)**	**(Percent)**
Private	24.3	52.6	36.8
Public	75.7	47.4	63.2
Total	100.0	100.0	100

Source: CIT-HC. Excludes ginning by MALR of seed planting cotton and *dawalib*.

Efforts should be made by the GOE to break this impasse so that privatization of the entire ginning industry can be completed. Perhaps the holding companies involved could agree to some alternative requirement, in place of the land lease, as a way to avoid excess profit taking by the buyers. An alternative would be to require that the buyers reinvest all or a substantial portion of any receipts obtained from the land sales resulting from gin closings in the ginning industry or some related cotton activity such as spinning, seed cotton pressing or acid delinting plants, or other agricultural investments.

Figure 3: Market Shares of Ginning Companies, 1999-2000

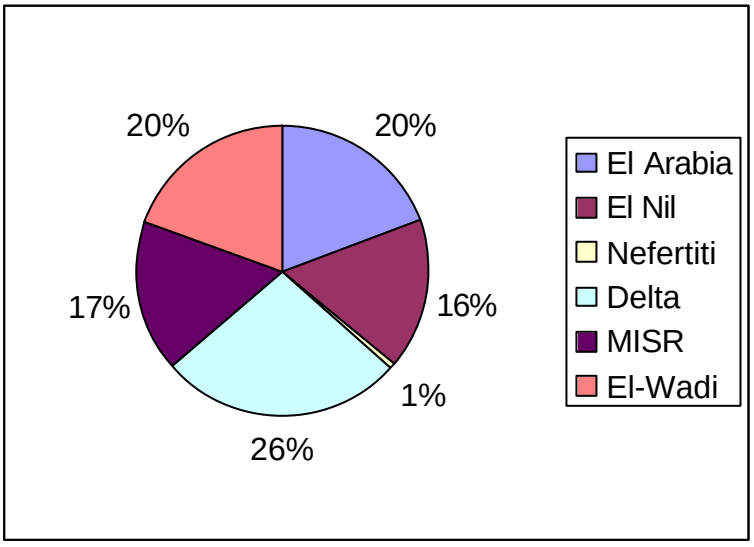


Table 8-4: Market Shares of Ginning of Seed Cotton, 1994-95 to 1998-99

Type of Ginning company	94-95	95-96	96-97	97-98	98-99	99-00
Publicly owned	74.4	73.8	75.2	64.7	60.1	62.8
Privately leased	25.6	24.5	11.1	1.6	0.9	---
Privately owned	---	0.5	13.3	33.5	38.7	36.5
MALR gin at Sakha	N.A.	0.3	0.4	0.2	0.3*	0.4
Dawalib	N.A.	1.0	N.A.	N.A.	N.A.	0.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Data for 1994-95 through 1997-98 from Holtzman (6) Table A-2. Data for 1998-99 from CIT-HC. *Estimated. N.A. = Data not available but estimated to be less than one percent.

8.5 UD Bale Presses

To our knowledge no additional UD bales presses have been installed in Egypt in any of the gins during the past year. An inventory of the gins reveals that there now are 13 UD presses at the gins, two at the Baraka repressing facility owned by the Modern Nile Group and four presses owned by MISR-Mehalla Spinning company (Tables 4.1 and 4.2, 14). In addition, the old presses at 5 gins have been modified to increase the density of the bales sufficiently to make them exportable.[31]

The bale presses located at the gins have the same daily capacity as the gins. A gin with 60 stands and working a 16-hour day can gin about 850 kentar per day or 140,000
per season (165-day season). The 13 gins with UD presses can thus gin about 1.8 million kentar in a season (October 15-March 31). In addition, 4 of the presses located at the gins plus the two presses at Baraka are permitted to repress cotton of any variety. This repressing activity can continue after the end of the ginning season as long as exports continue. Thus, the UD presses now in Egypt at the gins can easily press over two million kentars per season. On 29 April 2000, ALCOTEXA reported export commitments thus far this season of 95,454 MT or 1,909,080 Kt., and not all of this cotton will be exported as UD bales. Thus, there is little need for more UD presses at current export levels.

[31] There is now no legal requirement regarding the density of bales for exporting. A higher density than the regular gin bales is needed to reduce shipping costs.

9. SUMMARY OF SEED COTTON MARKETING

9.1 Sales by Growers

Cotton changes hands several times between the grower and the consumer. The first sale is by the grower (Tables 9.1 and 9.2). This is the first round of sales, or the first set of seed cotton market transactions. Farmers sell their cotton either to private traders, at their local cooperative or at a PBDAC sales ring. Tables 9.1 and 9.2 include the estimated sales to the *dawaliib* of 30,000 Kts.

Table 9-1: Quantities of Seed Cotton as Sold by Growers, by Variety, 1999-2000

(Seed Kentar)

Variety	Pbdac Rings	Cooperatives	Private Traders	Total
Giza 45	19,620	845	-	20,465
Giza 70	322,156	105,827	105	428,088
Giza 88	9,359	---	---	9,359
ELS	351,135	106,672	105	457,912
Giza 86	516,693	349,614	47,689	913,996
Giza 89	727,073	303,916	40,296	1,071,285
Giza 85	431,268	170,245	60,440	661,953
LS	1,675,034	823,775	148,425	2,647,234
Giza 80	256,678	84,606	35,727	377,011
Giza 83	409,157	46,182	13,299	468,638
MLS	665,835	130,788	49,026	845,649
Total	2,692,004	1,061,235	197,556	3,950,795

Source: CIT-HC, Final report on deliveries to gins. Sales to *dawaliib* estimated.

The decisions regarding how a grower sells his seed cotton are not all made by the grower. Private traders determine what varieties of cotton they wish to buy and go to growers who produced those varieties. If a private trader does not buy the seed cotton, then the grower delivers it to the PBDAC ring or to the cooperative. Also, the cooperatives operated in some, but not all cotton producing areas. If the cooperative was buying cotton where the farmer lived, then he had a choice; otherwise he had no choice but to take his cotton to the PBDAC rings. As shown in Table 3.6, most farmers had no choice but to deliver their cotton to the PBDAC ring. For instance, (Table 3.11) many farmers (41%) said they sold at the PBDAC rings, because they had received no other offers for their cotton. Actually, the PBDAC rings were meant to serve as the 'market of last choice' for the farmer. The introduction to Joint Ministerial Decree No. 1014 stated that the rings are established "for the producer who doesn't receive any buyers or doesn't accept the prices presented to them" (see Annex III).

As shown in Tables 9.1 and 9.2, private traders purchased almost none of the ELS cotton directly from growers this season. The main reason for this was that the expected deficiency payments for the ELS varieties were very large (see Table 2.3). The expected deficiency payments for Giza 70 were about LE 24/Kt. and about LE 250/Kt. for Giza 45. Traders were told at the start of the season that they

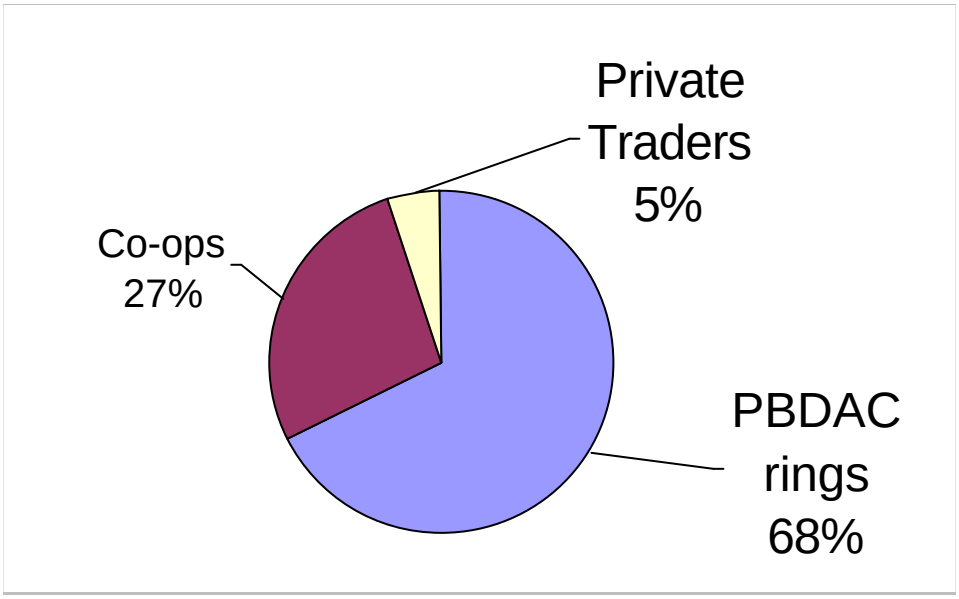
would not receive the deficiency payment if they bought cotton outside of the official markets, and hence they bought very little of these varieties directly from growers.

Table 9-2: Market Shares of Seed Cotton Sold by Growers, by Variety, 1999-2000

	Pbdac Rings	Cooperatives	Private Traders
Giza 45	95.9	4.1	0.0
Giza 70	75.3	24.7	0.1
Giza 88	100.0	0.0	0.0
ELS	76.7	23.3	0.0
Giza 86	56.5	38.3	5.2
Giza 89	67.9	28.4	3.8
Giza 85	65.2	25.7	9.1
LS	63.3	31.1	5.6
Giza 80	68.1	22.4	9.5
Giza 83	87.3	9.9	2.8
MLS	78.7	15.5	5.8
Total	68.1	26.9	5.0

Source: Based on Table 9.1

Figure 4: Sales of Seed Cotton by Growers



Private traders also avoided the ELS varieties this season because many of them concentrated on sales to the domestic spinning mills, rather than exports, and the domestic mills use very little ELS. Four larger private trading companies bought Giza 70 mainly for intentions to export. This cotton was acquired mainly through the PBDAC rings and some from cooperatives.

9.2 Deliveries to the Gins

Seed cotton delivered to the PBDAC rings and to cooperatives is sold to public or private companies who in turn deliver it to the gins. Seed cotton purchased by brokers or private traders directly from farmers may change ownership 1-3 times but almost always is delivered to a gin by a private company. Tables 9.3 and 9.4 provide a summary of deliveries to the gins by private and public firms by varieties.

Table 9-3: Deliveries of Seed Cotton to the Gins by Public and Private Sectors, by Variety[32]

(Seed Kentar)

Variety	Public Sector	Private Sector	Total
Giza 45	17,965	2,500	20,465
Giza 70	322,789	105,299	428,088
Giza 88	9,359		9,359
ELS	340,754	117,158	457,912
Giza 86	585,581	328,415	913,996
Giza 89	645,920	425,365	1,071,285
Giza 85	301,959	359,994	661,953
LS	1,533,460	1,113,774	2,647,234
Giza 80	144,168	232,843	377,011
Giza 83	242,453	226,185	468,638
MLS	386,621	459,028	845,649
Total	2,260,835	1,689,960	3,950,795

Source: See Table 9.1 (Deliveries to MALR gin at Sakha included in public total.)

Private traders bought very little cotton directly from growers but increased their market share considerably this season by expanding their purchases from cooperatives.

The public sector companies were forbidden from buying from private traders or brokers but could buy from cooperatives. However, the private sector purchased 65 percent of the cotton received by the cooperatives.

[32] Table 9.3 does not include the 30,000 kts. delivered to *dawalib* or the 8575 Kts of Giza 88 which was ginned in the MALR gin.

Table 9-4: Market Shares of Seed Cotton Purchased by Public and Private Sectors, by Variety

Variety	Public Share (%)	Private Share (%)	No. of Private Companies who Delivered to Gins*
Giza 45	87.8	12.2	1
Giza 70	75.4	24.6	4
Giza 88	100.0	0	
ELS	74.4	25.6	4
Giza 86	64.1	35.9	10
Giza 89	60.3	39.7	11
Giza 85	45.6	54.4	12
LS	57.9	42.1	12
Giza 80	38.2	61.8	9
Giza 83	51.7	48.3	8
MLS	45.7	54.3	10
Total	57.2	42.8	18

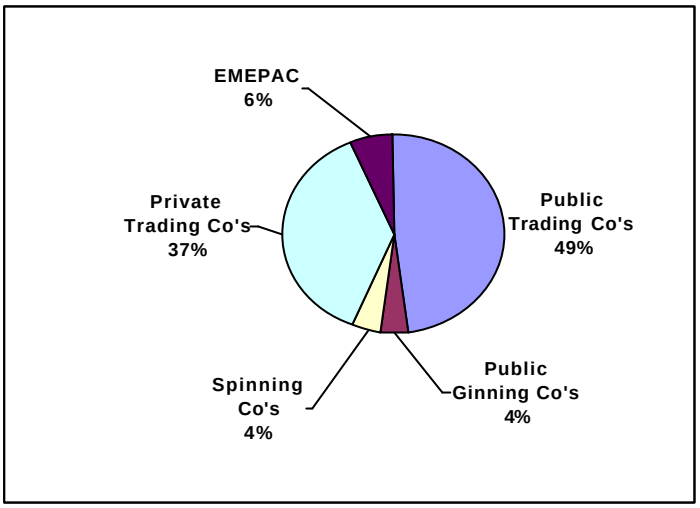
*No data available on varieties traded by 5 private companies and several individuals.

The private companies purchased only about 1/4th of the ELS cotton, but 42.1 percent of the LS varieties grown in the Delta and 54.3 percent of the cotton grown in Upper Egypt. This purchasing pattern reflects the market outlook of the private traders. Overall, the private sector purchased 42.8 percent of the seed cotton.

The private trade shied away from the ELS varieties because they expected that exports of these varieties would be low this season as a result of the export prices set on these ELS varieties. The private trade was also concerned with the large quantity of carry-over stocks from the previous three seasons that were owned by the Government. Some private traders were concerned that the Government might try to reduce these stocks and thus depress the prices of the ELS varieties. The private trade placed a large emphasis this season on the domestic market and hence purchased primarily the LS and MLS varieties. This topic will be addressed again in Chapters 10 and 11.

The CIT-HC reported the quantities of seed cotton delivered to the gins for 15 private companies, including EMEPAC. EMEPAC, since it handles the cotton used for producing multiplication seed, trades every variety, thus it was the only private company which traded Giza 45. El Arabia Ginning Co. reported seed cotton receipts from three companies not listed in the CIT-HC reports. Hence, 18 private sector companies delivered seed cotton to the gins this season but data on the varieties delivered by three small companies were not provided**.** Figure 5 summarizes the total deliveries to the gins by types of seed cotton traders.

Figure 5: Total Seed Cotton Deliveries to Gins by Type of Buyer



Figures 6 and 7 provide a summary of the market channels, primarily for seed cotton. Data from Tables 9.1 to 9.4 are used in producing these figures. In these figures the trades of EMEPAC are included as private trades. The marketing of lint cotton has not been completed at the time of this report and is thus estimated. Data on exports are based on commitments as of 29 April 2000 but exports late in the season were drawing from carryover stocks of previous years and thus, data on exports out of current production is not available.

9.3 Comparison with Prior Seasons

A comparison of the 1999-2000 season with prior seasons, since liberalization and privatization was started in 1994-95, is provided in Table 9.5. This comparison indicates the major changes in the seed cotton marketing system. In the first round of sales the cooperatives made a major gain in market share, mostly at the expense of the PBDAC rings.

Total deliveries to the gins by the public sector declined from 72 percent last season to 57 percent this season. EMEPAC showed an expansion of over 100 percent in market share. The addition of the spinners to the seed cotton market is significant. The private sector share of deliveries to the gins increased significantly.

9.4 Deficiency Payments

In early February the MALR announced that payments under the deficiency payment program would begin at the end of February. The MALR met with traders to explain the procedures and the documentation needed. The MALR also then announced that such payments could also be made on seed cotton purchases outside of the official channels (at PBDAC, cooperative or EMEPAC rings) ***if the trader could provide documentation on the variety and grade by CATGO grader, official weight and ginning outturn tests, and that the official price had been paid.***

Table 9-5: Summary of Data on Market Channels for Seed Cotton Marketing and Ginning, 1994-95 through 1999-00

(Percent of seed cotton)

Market Channels	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
Direct from farmers						
Traders-brokers	15	79	8*		6	5.0
Cooperatives	85	17	2		16	26.9
PBDAC rings		4	97.6	100	78	68.1
Delivered to the gins						
Public Trading Cos.	53.8	34.0	85.1	83.5	64	49.2
Public Ginning Cos.	8.0	6.8	14.9	9.2	8	3.9
Spinning Companies						4.0
EMEPAC					3	6.5
Private Companies	38.2	58.2	---**	6.5	25	36.3
Dawaliib	---**	1.0	---**	---**	---**	0.1
Ginning						
Public Cos.	74.4	75.0	75.6	64.9	60.4	63.0
Private Cos. (own and lease)	25.6	25.0	24.4	35.1	39.6	36.7

Sources: (6, 7, 12,13) * Private traders sold 7.8 % at PBDAC rings. ** Less than 1 %

This decision on deficiency payments was a change from the announcements made early in the season. Many small traders did not participate in the market this season, and some larger traders limited their purchases outside of the rings, because they had been led to believe that the deficiency payments would have to be foregone with such purchases. Many such sales were made at lower than the official prices. Such sales would not qualify for deficiency payments. ***However, had the small trader known that such deficiency payments could be received, in many cases he would have been willing to pay the full official price and then collect the deficiency payments.*** As things were, the trader had to offer a lower price to the farmer to be able to make a profit. Hence, farmers suffered the lower price as a result of this understanding and the private sector share of the seed cotton market was reduced.

Those who had bought cotton directly from farmers no doubt welcomed this decision. This was an unexpected windfall for them, ***but the trader who had been scared away from the market received no compensation***. This change in policy is an example of the instability of the Government policies that many traders referred to, and one of the major causes of uncertainty in the market that has driven some private traders out of the market.

Figure 6: Estimated Market Channels for Seed and Lint Cotton, 1999-2000 Season

Figure 7: Estimated Market Channels and Shares for Seed and Lint Cotton, 1999-2000

The total costs of the deficiency payments are estimated to be between LE 59 and LE 61.5 million depending upon whether the payments are made on all seed cotton produced or only that those sales through the official channels (Table 9.6). The deficiency payment varies with the variety, the grade, and the ginning outturn (see Table 2.3). These estimates are based on the average reported ginning outturns of the season (see Table 8.1) and an assumed average grade of Good +1/8th. The program costs were estimated under two assumptions. One assumption is that the deficiency payments will be made on all seed cotton, and a second assumption is that it will be made only on seed cotton sold through official markets (PBDAC rings and cooperatives). Actually, as we now understand the procedures, the payments are to be made on all sales that can be properly documented in regard to variety, grade and ginning outturn, which will result in a total program cost some where in between these two estimates.

Table 9-6: Estimated Cost of Deficiency Payments Program

	Payments on All Seed Cotton					Payments Only on Official Sales	
Variety	**Total Prod. (Kts)**	**Private Sales (Kts)**	**Average Payment (LE/Kt)**	**Total Cost (000 LE)**	**%**	**Total Cost (000 LE)**	**%**
45	20,465	0	254.8	5,214	8.5	5,214	8.9
70	428,088	105	25.14	10,762	17.5	10,759	18.3
ELS	448,553	105		15,977	25.9	15,974	27.2
86	911,996	47,689	20.02	18,258	29.7	17,303	29.4
85	641,953	60,440	11.02	7,074	11.5	6,408	10.9
89	1,069,285	40,296	6.98	7,464	12.1	7,182	12.2
LS	2,623,234	148,425		32,796	53.3	30,894	52.5
80	374,011	35,727	20.01	7,484	12.2	6,769	11.5
83	465,638	13,299	11.41	5,313	8.6	5,161	8.8
MLS	839,649	49,026		12,797	20.8	11,930	20.3
Total	3,911,436	197,556	15.74	61,570	100.0	58,798	100.0

Sources: Production estimates from MALR

These estimates show that 8.5-8.9 percent of the payment cost is for the deficiency payments on the Giza 45 cotton even though this variety produced only 0.52 percent of the total production on a quantity basis. The estimates also show that if the payments are extended to all seed cotton, versus the sales at official markets, the increase in total payment cost will be no more than an additional LE 2.8 million, or less than 5 percent.

Private traders reported in mid May that the GOE had been making payments on the amounts due to traders under this deficiency payment scheme. These payments are being made much later than promised, but at least they are being made.

9.5 Impact of the Deficiency Payments Program

The deficiency payments program allowed the private sector to participate in the seed cotton market in 1999-2000. This can not be disputed. Two years previous, 1997-98, the government had also announced seed cotton prices that exceeded export prices and that season also announced a deficiency payments program (See Ref. No. 3). However, that season the government required excessively large deposits of prospective buyers at sales rings and did not give adequate assurances to traders that the deficiency payments would ever be received[33]. As a result, most private traders remained out of seed cotton market and the private sector share of the seed cotton market dropped to 5 percent (4). The same would probably have occurred this year without this program.

In comparison to 1997-98, the deficiency payments scheme this season was successful, considering that the private sector share of the market this season was 42.8 percent. But the program could have been better administered. The threat of loss of these payments from purchases outside of the rings reduced private participation in the market. ***The decision to allow deficiency payments on cotton purchased outside of the official markets should have been made, and announced, at the start of the season instead of at the end of the season.*** This failure had major adverse impacts particularly on the smaller traders who could not secure a sales ring or could not contract to buy from a cooperative.

9.6 Grade Price Premiums

As mentioned frequently in this report, there were 'official table prices' for seed cotton, for exporting lint, and for lint sold domestically to the public spinners. The issuance of these price tables was not a new phenomenon this season, it has occurred for many years, before and after the start of cotton market liberalization. These tables not only establish the overall price levels for seed cotton; they set the price differentials between varieties and between grades.

The GOE has used the same grade differentials for all varieties for many years, regardless of the price level. For instance, the price differentials for each 1/8th grade of seed cotton have been LE 6/Kt. for all varieties, and at all grade levels, for Giza 45, when it was priced at LE 1,000 per seed kentar, and for a low grade of Giza 80, which is priced as low as LE 250/kentar.

How does the GOE determine these price differentials? This has always been puzzling. In most market situations the differentials between varieties or grades are determined by the interplay of supply and demand. These forces are not allowed to act in the Egyptian cotton market. We mentioned earlier that many farmers do not even detect a connection between the quality of their cotton and the price they receive. Either the price differentials between grades are too small, or the reason for the price difference is not communicated to the grower. In either case, he sees no reason to produce clean cotton.

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[33] An official of Modern Nile reported that that company had not yet as of 15 May 2000 received any of the deficiency payments due to them under the deficiency payments program for 1997-98 although the GOE has officially acknowledged that such payments are due.

What does the spinner do in this type of market? He can look at the set of fixed prices facing him and pick out the variety and grade that he feels will give him the best profit potential, and buy that variety and grade. If all spinners made the same choice, then all other varieties and grades would be left untouched in the warehouses of the traders. Or when the supply of the first choice variety and grades are gone, the spinners must then choose the second best variety or grade and buy until it is gone. And so on until all of the cotton is eventually sold.

With this type of marketing the consumer (the spinner) does not get a chance to indicate what he thinks the value differences are between two varieties or between various grades. The result of these fixed price differentials by grade and variety is a lack of communication between the spinner and the grower. The spinner cannot tell the grower what good clean cotton is worth to him, so the grower doesn't know what effort to place on producing clean cotton.

Neither does the current marketing and pricing system allow the spinner to indicate his choice of varieties. A committee, as indicated earlier, now makes the variety decisions.
Many of the private traders interviewed indicate that this committee meets with the traders and hears their comments regarding how much should be produced of each variety, "but then does whatever it wants anyway". In other words the trade feels that the variety committee is not very responsive to market conditions. ***The market must be freed of these predetermined price differentials before it can pass information regarding preferences from the spinner back to the producer.***

9.7 Price and Non-price Competition

Very little price competition existed in the seed cotton market this season. All cotton sold at the PBDAC rings or at the cooperative societies (95 %), was at the official government prices. Private traders were free to pay the price they wished, but most reported that they paid a price that was close to the prices in the official tables. The official price table was used as a guide for almost every trader. ***The traders of seed cotton can logically do little else than follow the table for seed cotton prices given the deficiency payment scheme used and the fixed varietal and grade differentials set for lint prices.***

Sales of seed cotton at the official markets are non-competitive. Traders are permitted to choose the rings or the local cooperatives at which they buy cotton. These traders observe the cotton in the local areas before and during cotton harvest before they make their choices. Thus, the traders can try to choose the better cotton. But no system exists for competitive bidding for the most desirable rings. Each ring is assigned to only one company and if there had been a second company who wanted to buy the cotton in that ring their only alternative is to buy directly from those growers outside of the ring. This 2nd company could set up a private ring across the street from the PBDAC ring and offer to buy at a better price, or could provide some other non-price services to the farmers. Such activity was discouraged this season by the announcement that traders would lose the deficiency payment if they bought cotton in that manner.

A trader who has been assigned a PBDAC ring has the obligation to purchase all of the cotton delivered at that ring and he must pay the official table prices, ***but he no longer has any competitors bidding***

for that cotton. This lack of competitive bidding at the local level discourages sales at the rings. Because of the fixed, small, price differentials between grades, the best strategy for a grower with low-grade cotton is to take it to the PBDAC ring, but the best strategy for the grower with high-grade cotton is to seek a buyer outside of the ring. Although data are not available to verify this effect, this is the result that one must expect with this type of marketing system.

Is it not possible to permit cotton to be sold at auction at a local ring? Such options should be examined.

Sales at cooperative societies follow much the same procedures. Private traders negotiate contracts with the national leaders of the cooperative societies to buy cotton of certain varieties, and at specified local villages. The buyer can select the villages at which he will buy, but then must buy all of the cotton delivered at that local cooperative and at the official price. Again, no bidding occurs for individual lots. Cooperatives differ from the PBDAC rings in that the marketing charges are set by the cooperative, or possibly in agreement with the buyer. The grading, weighing and testing procedures are the same as at the PBDAC rings. The cooperative makes its own plan for payments. The cooperative usually requires a down payment from the buyer so as to obtain the capital to buy the cotton.

The main difference between the cooperative and the PBDAC ring is in the allocation of the rings to the private traders. The PBDAC rings are distributed among traders by a government committee (see Chapter 4), whereas the cotton delivered at the cooperatives is sold through private negotiation between large buyers and national cooperative leaders. No price negotiation occurs in the allocation of the PBDAC rings but some price negotiation occurs between the private trader and the cooperative official. The buyer may offer a slight premium over the official table price. This is as expected. This premium is usually in the order of LE 1-2/Kt. above the official table prices for cotton of all grades. In this respect the farmers may receive a higher final price through the cooperative since he may have less deductions for marketing charges and deductions. Or, the cooperative may reap a small margin (they may keep the price premium) and add to the coffers of the cooperative.

On the other hand, the expansion of marketing through the cooperative system may lead to fewer and larger private traders and greater concentration of trading. In 1999-2000 all of the cotton sold by cooperatives (27 % of the total) was sold to the 6 public companies and 8 private companies. All of these 8 private companies were among the largest 11 companies in the industry. ***One trade between one cooperative and one private trader involved 7 percent of all of the seed cotton in the country***. It appears that small private companies may have difficulty buying seed cotton via this method ***and the farmer is still largely left out of negotiations.***

Private traders were able to buy seed cotton at prices slightly below the official prices because they provided other services to the grower. They paid farmers the full offered price immediately, which was better than the record reported for PBDAC, and they usually furnished transportation of the cotton, and the private trader did not deduct any charges for grading or weighing or other marketing costs. Also, in some cases the farmer sold to the private trader to delay payments on loans he had with PBDAC or at the cooperative society.

9.8 Privatization of Cotton Trading

Six large public trading companies remain under public control. Public officials answer inquiries regarding the privatization of these companies with responses about the debt of these companies and the excess employment problems. Hence, little has changed in the past year. The debt of these companies is variously reported at LE 4 to 5 billion. This debt is not due to inefficiencies of these trading companies but resulted when these companies carried out past GOE cotton price policies. This debt is owed to the public owned banks and could be transferred to the holding companies, paid with funds from the national treasury, or written off by the public banks.

Employment numbers reported are approximately 600-700 per company. These numbers have drifted downward over time since these companies have not hired new staff in about 15 years. An early-retirement program was initiated this year at Eastern and Alexandria Commercial companies, and likely by the other companies as well.

There is little hope that these companies will ever be privatized, other than to let the employees take ownership. The only assets of these firms are the experience and contacts of their staff. For five years now the private sector has been hiring staff away from these companies. Every private company has former or retired public sector cotton trading or ginning company staff on their payroll. The major demand for these public employees would come from new private companies.

The government's actions this season to retain 70 percent of the PBDAC rings for the public companies was an obvious attempt to retain market share for these companies. ***Greater private market share of the seed cotton market cannot occur until these public companies are closed.*** The only likely solution to this problem is simply closing of these companies and retirement of the staff or transfers to other public companies. ***The GOE should show action on this front by closing at least one public trading company each year for the next 6 years.***

Simultaneous operation of public and private trading companies results in difficulties for the market. Operating and accounting rules are needed for public companies that must account for all financial operations. Hence these companies must trade at fixed prices. Fixed pricing is not the style of free markets. Fixed operating and marketing margins do not exist in free markets. Private firms are then accused of not following fixed seed cotton or export prices, but there is no need for them to do so. Competition will determine prices and resulting profits. So conflict continues over such operating rules, at the ALCOTEXA meetings, and in the market. Such conflict will continue until all firms are privately owned, or public owned.

10. DOMESTIC SALES OF LINT COTTON

10.1 Prices of Lint Cotton

The GOE issues not only the official prices for seed cotton at the farm gate but also a table of prices for lint cotton. These are the prices to be paid by the public sector spinning mills. These prices are equivalent to the export prices announced by ALCOTEXA minus the fobbing costs, which have been set by the GOE at 10 cents/lb.

Table 10-1: Prices of Lint Cotton Delivered to Alexandria Mills

(LE/Kt.)

Grade	G-45	G-70	G-86	G-89	G-85	G-80	G-83
Good - 1/8th	494.69	307.30	277.32	266.08	254.83	232.35	232.35
Good	502.19	314.80	284.82	273.58	262.33	239.85	239.85
Good + 1/8th	509.69	322.30	292.32	28108	269.83	247.35	247.35
Good + 1/4	517.19	329.80	299.82	288.58	277.33	254.85	254.85
Good + 3/8ths	524.69	337.30	307.32	296.08	284.83	262.35	262.35
Good/Fully Good	532.19	344.80	314.82	303.58	292.33	269.85	269.85

Source: CIT-HC, 25 September 1999.

Early in the season (October) the general feeling in the trade was that there would be a domestic shortage of cotton. The private traders reported that those privatized domestic spinning mills that had money available to pay for cotton began to buy lint from private traders and at premiums over the official lint prices of up to LE 10/Kt. This action by the spinners encouraged private traders to buy outside of the rings even though they expected to forego the deficiency payment.

10.2 Domestic Sales

Traditionally, the public trading companies have been the suppliers of lint for the public sector spinning mills. In the past, the holding companies usually took responsibility for filling the lint needs of the public mills. As we saw earlier, four spinners bought seed cotton this season but the total purchases in this manner was quite small; only 158,500 seed Kts. All of the private trading companies interviewed indicated some sales to domestic spinners, in fact, many private trader s reported that the domestic market is their only market for lint. As reported earlier, a total of 23 private companies and a few private individuals delivered cotton to gins this season but as of late February only 8 private firms had made any export commitments. That means that 15 private firms and some individuals will likely sell all of their cotton to domestic mills this season.

On 27 April 2000, ALCOTEXA reported deliveries to the domestic spinning mills this season of 2,403,222 Kts (120,161 MT). The private traders had purchased about 1.73 million seed kentar (exclusive of the *dawalib*) which likely produced about two million kentars of lint. Export commitments by the private sector as of that date totaled about 15,413 MT (308,250 Kts,) leaving almost 1.70 million Kts. of lint in the hands of the private firms for domestic sales. Data on deliveries to domestic spinners

indicates that by 26 February 2000 deliveries to domestic spinners this season had totaled 1.95 million kentars.[34] Of this total, 1.08 million kentars (55.5 %) had been delivered by private traders.

Last season, (1998-99) the estimated sales by private traders to the domestic mills were 825,000 kentars but this season it will be more than twice that amount. This also means that the bulk of the purchases by domestic spinners during the first half of the 1999-2000 season were from private traders.

Private traders have not been selling to all spinning mills, but only to a few-- those that have money to pay for it. Most traders reported selling to the privatized spinners and those public spinners that are in better financial condition, including Unirab, Alexandria S. & W., Amriya, MISR-Mehalla, Shebin El Kom, and MISR-Iran. Many other domestic spinners do not have capital to buy lint because of depressed domestic and export sales, which has left many of them with all of their capital tied up in inventories of unsold yarn and fabric.[35]

A major reason for this shift by the private sector to the domestic market is simply the decline in the exports in the first half of this season, which, in part was a result of the ban on exports in late October 1999, and a decline in international demand for cotton. Export commitments in the first half of this season were below that of last season at the same date (see Chapter 11).
And profits from exports are also lower. Last year many private traders made export commitments and then the government changed the rules on the carrying charges, essentially forgiving carrying charges for two months (April and May) for the foreign buyer. This change produced an unexpected loss of 2 percent of revenues for the exporter. This is likely to be a major share of the expected profits.

Most private traders reported that the main reasons they sold to the domestic traders this season were; 1) the premiums paid by the domestic spinners (premiums over and above the official prices) and 2) the speed with which they would receive payment from the domestic spinner in comparison to export sales.

Private traders also reported that when the ban on additional exports of Giza 85, 86 and 89 was announced on 29 October 1999 the domestic spinners dropped their price premiums and also discontinued their purchases of lint, and in fact the domestic spinners began to ask for discounts. The local spinners had apparently concluded that the ban on exports would keep the cotton inside the country and hence the possibility of a domestic shortage of lint had disappeared.

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[34] ***Cotton,*** a monthly publication of the CIT-HC. February 2000 issue.

[35] One public trading company official stated that the public trading companies are no longer permitted to sell cotton to the public spinning mills on credit terms. This is a reversal of past policies when public trading companies were **ordered** by the holding companies to sell to the spinning mills.

11. EXPORTS OF LINT COTTON

11.1 September-December, 1999

Exports of lint during the 1999-2000 season followed a different pattern from that of the previous season. Total export commitments in the 1998-99 season were 108,405 MT, or 2,168,000 Kts. with total commitments at 97 percent of the total by week 26. This season, commitments totaled 65,800 MT at the end of week 15 (1 January 2000) but then came a spurt of commitments giving a total of 95,500 MT by 29 April 2000.
At this date, (15 May) it appears that export commitments may continue through the summer.

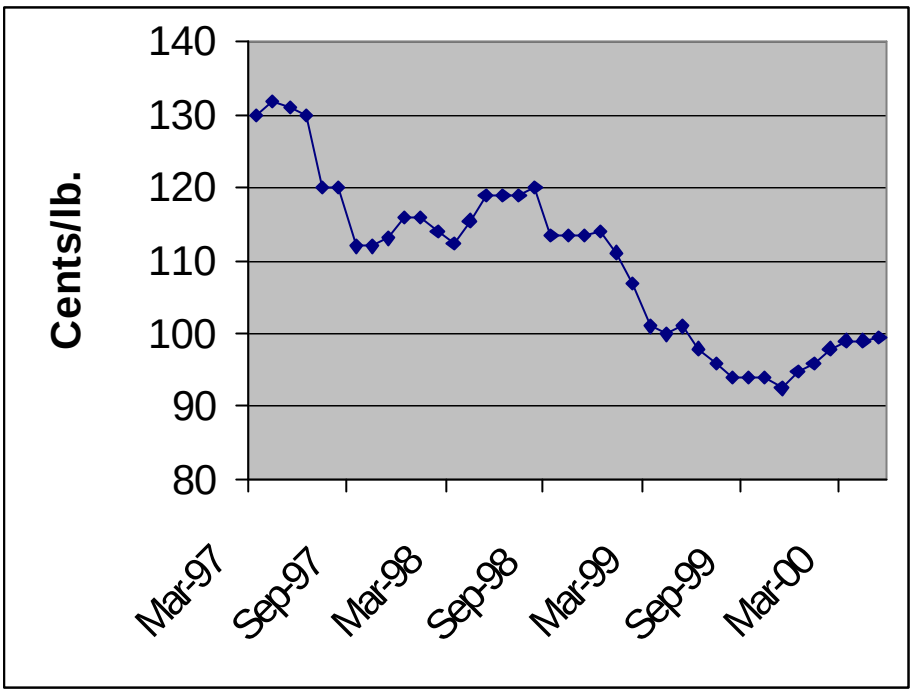
A major contributor to this pattern of export commitments is the price. Throughput 1999 prices declined, primarily due to the sharp increase in output of US Pima. Preliminary data on the area planted to Pima in the USA showed an increase from 260,000 acres in 1998 to 318,000 acres in 1999 (22 %). The final USDA estimate of production of US Pima in 1999 was 695,500 bales versus 442,300 bales in 1998, a 57 percent increase in production. Pima production in 1998 was exceptionally low due to cold weather at planting time.

However, US Pima exports had not suffered the decline experienced by Egyptian exports. US Pima exports through 24 February 2000 were 356,200 bales for this season compare with 288,600 bales the entire previous season. The US had exported 23 percent more Pima than the previous season while Egyptian exports had declined by nearly 20 percent. Clearly, US exports increased as a result of competitive pricing.

Figure 8 shows that the price of US Pima, the main competitor of Egyptian ELS cotton, had declined considerably from September 1998 to September 1999. When the ALCOTEXA committee set export prices in September 1998 the US Pima price was 120 cents/lb. However, in August 1999 the price of Pima had dropped to 94 cents/lb., a drop of 26 cents or 22 percent, but ALCOTEXA lowered the export prices for the 1999-2000 season by much less. It reduced the price of Giza 70 by 15 cents/lb.(from 117 to 102), which was 13 percent, but the price of Giza 86 was decreased by only 6 cents (from 100 to 94), or 6 percent and the other LS varieties were dealt with in a similar fashion.

Exports were dealt an additional blow when additional commitments for export of varieties Giza-86, Giza 89 and Giza 85 were banned by the GOE on 29 October 1999. Export commitments at that date were 59,979 MT. Most private traders expressed the opinion that this ban was a poor decision on the part of the GOE, particularly because of the impression it makes on traders throughout the world. Such a decision tells buyers that the Egyptian market is clearly not a free market but is controlled by the GOE. Most private traders feel that the GOE should have used prices to attain their objectives instead of a ban. ***If the Government wanted to reserve the locally produced lint for the local spinners, it should have increased the export prices instead of placing a ban on exports.***

Figure 8: Price of US Pima, Grade 3, North Europe, March 1997 to April 2000



11.2 January-April, 2000

The price of US Pima began to rise in January 2000 (See Fig. 8). Also in January ALCOTEXA offered some price discounts of 1-3 cents/lb. for early shipments beginning 1 February 2000 (see Chapter 13, page 75). Export commitments increased considerably during the next three months. Whether this was a response to the discounts for early shipments or a response to the increase in the price of US Pima is impossible to tell, but the increase in the price of US Pima was much greater in relative magnitude than were the shipping discounts.

On 23 April 2000 ALCOTEXA issued a notice that the export ban on Giza 86, 89 and 85 was lifted (See Annex II). At that date the uncommitted stocks of these varieties was about 580,000 Kts (29,000 MT). This decision has several implications and interpretations. The original ban had been put in place by the GOE and hence this reversal of policy must have been a decision of the GOE. The original ban on exports of these varieties was put in place to protect the supply of lint of the domestic spinners, or lower their lint cost. There had apparently been a decline in the demand for lint by the domestic spinners, or a change in policy by the government removing protection of the local spinners. Exports by domestic spinners had declined this season due to world competition and hence the local needs for lint had declined. But it is interesting to speculate regarding the policy of the GOE in regard to protecting the supply or prices for the local spinners. Has this policy really changed? And if so, why?

This reversal of policy also had implications to the exports of other varieties. Considerable concern was shown by the public trading companies in trying to reduce the carryover stocks, particularly of Giza 70.

Giza 86 is similar to Giza 70 in spinning qualities and hence new sales of Giza 86 may be at the expense of the carryover stocks of Giza 70. We do not imply that the ban should not be lifted, only that the lifting of the ban has many implications and impacts.[36]

During the first week after this ban was lifted (week 32), new export commitments totaled 4,300 MT (86,000 Kt.). Of this amount, 806 MT was ELS and the balance was of the varieties that had been banned, with 3,170 MT of Giza 86. And, on 30 April ALCOTEX made the first price changes of the season. The price of Giza 70 was increased by one cent/lb. and the prices of the three varieties that had been banned (G-86, 89 and 85) were increased by 2 cents/lb. The bulk of the late season sales were of Giza 70 from carryover stocks from the seasons of 1996-98 through 1998-99 held by the public companies. Export commitments of Giza 70 between 1 January and 29 April had totaled 433,000 Kts. (21,650 MT).

At the end of week 32 (29 April 2000) total export commitments had reached 95,454 MT (1,909,070 Kt.), which was approximately 42 percent of total production this season. However, some of the export commitments for ELS varieties are being filled from carryover stocks. This is obvious since the export commitments of Giza 70 on 29 April exceeded the 1999-2000 production by 133,000 Kts. Thus, only 39 percent of the season's production had been committed for export.

Eight private exporting firms had made commitments to export 15,812.5 MT or only 17 percent of total exports. This was a substantial decline in market share for the private sector (Figure 9) compared to last season. The decline in export share for the private sector can be largely explained by the increase in profitability of domestic sales versus export sales as discussed in Chapter 10 and the late season sales of carryover stocks of Giza 70 which were practically all owned by the public exporters.

As stated earlier, some reduction of the carryover stocks has been achieved, but much remains. In late March 2000 the public trading officials were optimistic that export sales of Giza 70 will continue. These traders reported that their perception of the situation is a general worldwide short supply of high-grade cotton and rising prices.

These traders also reported that when the early-shipment discounts expire at the end of April ALCOTEXA would re-examine the carryover stocks situation and consider additional action to reduce these carryover stocks. Possible actions include; 1) a reduction of prices, 2) a reduction in the exportable grade from Good + 3/8^{ths} down to Good + 1/4 or even as low as Good, 3) a cancellation of carrying charges which will start on 1 May, or, 4) "spot lot" sales of the low grades.[37]

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[36] This notice issued by ALCOTEXA of the lifting of the export ban also specified that the export commitments of these varieties should include the name of the spinner. This requirement would perhaps yield some interesting data but it is probably impossible to enforce and hence would not give an accurate picture. Buyers may consider this an infringement on their selling practices.

[37] These comments by the public traders reveal that ALCOTEXA is still viewed by many as an arm of the Government rather than as an independent agency.

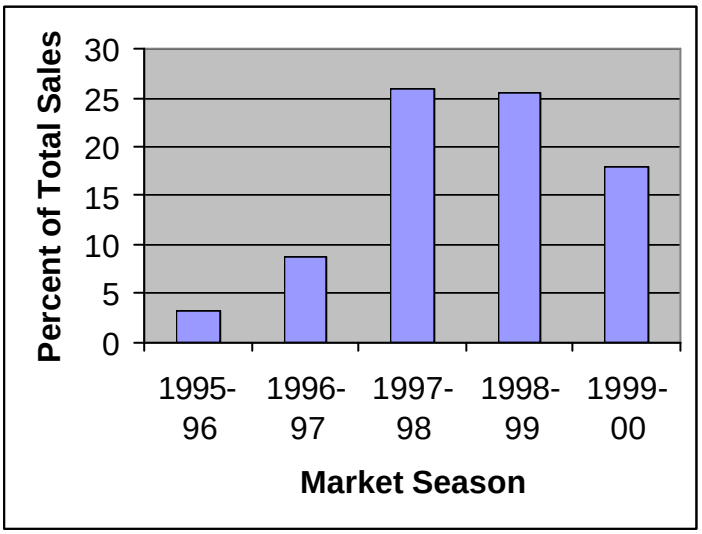
Table 11-1: Export Commitments by Week, Mid to Late Season, 1999-2000

(all varieties)

Market Week	Week Ending:	New Commitments (MT)	Total Commitments (MT)
15	January 1	272.0	65,794.13
16-17	January 15	1,145.95	66,940.08
18	January 22	1,318.75	68,258.83
19	January 29	5,795.05	74,053.88
20	February 5	767.07	74,820.88
21	February 12	1,464.1	76,285.05
22	February 19	928.6	77,213.65
23	February 26	647.0	77,860.65
24	March 4	3,095.0	80,955.65
25	March 11	4,248.5	85,199.15
26	March 18	937.0	86,136.15
27	March 25	1,310.6	87,446.75
28	April 1	2,355.2	89,821.95
29	April 8	651.0	90,472.95
30	April 15	305.0	90,777.95
31	April 22	361.6	91,152.55
32	April 29	4301.0	95,453.55

Source: ALCOTEXA

Figure 9: Private Sector Share of Total Exports, 1995-96 to 1999-2000



On 14 May ALCOTEXA increased the price of Giza 70 by 2 cents/ lb. but lowered the exportable grade of both Giza 70 and Giza 76. The reduction in grade was intended to facilitate the exports of the old carryover stocks. This stock situation is further complicated by the fact that the bulk of the stock of Giza 70 was produced in 1998 and is of low micronaire and low maturity. The carryover stocks of

Giza 70 from the 1998 crop were 742,677 Kts. on 1 September 1999. Some unknown fraction of these stocks has been sold, but much of what still remains may not sell without a heavy discount.[38] The increase in price was no doubt stimulated by the recent increases in the price of US Pima (See Fig. 8) and the recent spurt in exports of Giza 70.

Carryover stocks of Giza 77 and 76 are not as large or as worrisome as the stocks of Giza 70. Carryover stocks of Giza 76 were 75,000 Kt. on 1 September 1999 and had declined to 57,184 Kts. by 18 March 2000. Stocks of Giza 77 had been 320,000 Kts. on 1 September 1999 and were 228,221 Kts. on 18 March 2000. These stocks are of good quality and public traders believe these varieties are properly priced and will now sell with little difficulty, with the increase in the price of Pima.

[38] See a forthcoming assessment of these carryover stocks of Giza 70 by APRP/RDI.

12. IMPORTS OF LINT COTTON

Egypt has frequently imported cotton in the past (13, page 65). Imports were necessary in some seasons to meet the needs of domestic spinners. In other seasons Egypt has found it profitable to export its higher quality, ELS cottons and import cheaper, shorter staple cottons which fill the domestic demands. Unfortunately, many of the domestic spinners have not kept their factories up to date. Hence, they cannot make high count yarn from the high value Egyptian cotton.

Because of the small size of the cotton crop last year and again this season, and the extremely low international cotton prices, various parties in the cotton trade have been considering and some even importing lint cotton to Egypt in recent months. The chairmen of two holding companies (SWRMC-HC and TMT-HC) initiated actions in January 1999 to import lint cotton for their spinning companies. Contracts were eventually signed to import 16,000 MT (320,000 Kt.) of Greek lint cotton. The final cost was about 51-53 cents/lb. (cif Alexandria) and a total cost to the spinners, after fumigation and local customs duties and transport of about LE 250/kt.

Spinners have indicated that various suppliers had imported cotton from both Syria and Sudan. It was reported that the Sudanese cotton had been imported without proper fumigation and certification and was being sold as cotton waste at about LE 240-250/Kt. No efforts have been made to learn the full details on these imports.

The depressed world cotton market in 1999 had resulted in decreased export sales for most domestic spinners. In early 2000 many spinners were operating far below capacity. Only the privately owned spinners and better public spinners were operating at or near full capacity. Exports for the 1999-2000 season were also far below the previous season. As a result, the demand for lint had decreased substantially and carryover stocks from the small 1999 crop were being anticipated.

Early in the 1999-2000 season the domestic spinning mills were considering imports to reduce lint costs. Spinners were offering small premiums on Giza 80 and 83, but were unwilling to buy the higher priced varieties, such as Giza 85, 86 or 89. They were considering imports of low quality lint. By mid-season many domestic spinners were having difficulty selling their inventories. Their capital was becoming tied up in inventories, and many spinners did not have the capital to buy lint. As a result, total consumption of lint by domestic spinners will likely decline sharply this season. Thus, what appeared to be a shortage situation at the start of the season may end up as a surplus situation by the end of the season.

In May 2000 the TMT-HC announced a tender for 20,000 MT (400,000 Kt.) of upland (short staple) cotton. At this date there remains a considerable quantity of uncommitted Egyptian stocks, so it appears that the local spinners prefer to buy lower cost cotton than the Egyptian varieties. This is probably a wise decision. The mills cannot pay high prices for Egyptian cotton to produce goods that they cannot export and hence should seek the cheapest lint available to manufacture goods for the local market. Short staple cotton had been very reasonably priced for several months.

13. FINANCING OF THE COTTON MARKETS

There are two important aspects to the financing of cotton marketing; the availability of capital and the finance charges. Cotton marketing is a capital-intensive activity. The total value of the cotton crop is large. The total farm gate value of the seed cotton crop this season was estimated at LE 1.3 billion. The private sector share of this total was LE 570 million, or 44 percent. This value increases due to ginning, transportation costs, CATGO charges and other handling costs. These costs, at LE 50/lint kentar, add another LE 225 million giving a total value of the lint cotton of LE 1.5-1.6 billion.

Joint Ministerial Decree No. 1014 stated that the CIT-HC would provide an advance payment to PBDAC to establish the buying circles and the initial capital needed to purchase cotton. The decree also states that the buyers will provide the financing needed to buy the cotton as it is received at the rings. The decree also stated that a deposit of 8 percent of value of the cotton at the rings should be made with PBDAC at the start of the season. We were told that PBDAC reduced this requirement to 5 percent.

LE 1.3 billion was needed to pay the producers when they brought their cotton to market. Who furnishes this capital? The four public banks; MISR, Cairo, Alexandria and National, furnish the bulk of this capital. All of the public trading companies are financed by these public banks. It was learned that PBDAC provides no financing of the cotton market operations and very few private firms receive any financing from any private banks. In total, private banks financed perhaps only one or two percent of the cotton trade, with the exception of Al Watany Trading Company which is most likely financed by the Al Watany Bank.

Most of the major (top 14) private sector cotton trading companies receive the bulk of their financial backing from the public banks under the same arrangements as the public companies. An officer of the MISR bank in Alexandria discussed with us the arrangements for financing the cotton crop. A buyer who is buying seed cotton through a PBDAC ring or cooperative is expected by the bank to provide full financing for the payment to PBDAC or the cooperative for the first delivery of cotton. PBDAC required payment in full for all cotton before it was released for transport to the gin. When this first delivery is at the gin, the bank then uses that cotton for security and will loan up to 100 percent of its value, which the trader can use to pay for the 2nd shipment, etc. Weigh-bills from the gin were required as documentation. Actually the public banks sometimes authorize overdrafts of as much as 20 percent to pay for the additional marketing costs such as ginning, transportation costs, and sacks, etc. The banks base the value of the cotton on the ALCOTEXA export prices, after ginning. This procedure is followed whether purchasing of the cotton outside of the rings, in the rings or at cooperatives. Such loans are good for one full season to allow for exports. The buyer was required to obtain approval from the bank to sell the cotton, since the cotton was the security for the loan. Early in the season the interest rates were 13-14 percent for both public and private traders. With this system, the financial limit depends mainly on the value of the cotton at the gin, not on the customer.

Banks will only release cotton from their warehouses, or other warehouses for which they hold the keys, when they receive bank drafts for local sales or letters of credit for export sales.

The major private companies were asked if financing was a limit to the size of their operations and where or how they obtained financing for their operations. A small number of the larger private cotton trading companies had a shortage of financial backing. The only large private traders that fall in this group are those traders who have had losses in previous seasons and owe the banks for past losses.

Most of the smaller private traders have financial difficulties. Many large private traders provide financing for the traders or commission brokers that buy for them. Twenty percent of the small traders reported receiving financial backing by a large private trader and five percent from a public trading company. However, the smaller local traders who are buying directly from the farmer must provide almost all of their own capital. Few of these brokers have any financial assistance from others. Their volume is severely limited by their own capital and is dependent upon their ability to quickly turn their inventory. In a survey of small traders (Chapter 6) these traders report that they would expand their volume by a factor of three if they had adequate capital. Fortunately, the first round-buyer can usually turn his inventory quickly and get back out into the local market to turn over his capital several times in one season.

But the trader who delivers the cotton to the gin and markets it as lint with local spinners or foreign buyers has his capital tied up for a considerable period of time. The trader who can complete his transactions of buying and selling in less than 6 months is lucky. Buying of seed cotton begins about 1 September and ginning is usually completed by 15 March, a period of six and a half months. Export sales are not completed until delivery is completed, which may be up to 10 or 11 months. Thus, although a bank may provide the capital needed to operate, the financial charges become a substantial cost item in the market bill.

When estimating their marketing costs for seed cotton, trading companies include the finance charges for up to 6 months. This is a sizeable cost with current bank interest rates of 13.5 percent. In the case of cotton exports, it had been a standard practice for many years that a foreign buyer of Egyptian cotton was expected to pay carrying charges of one percent per month on the value of cotton not delivered by March 30. Last season the GOE changed this policy to delay these carrying charges until the end of May. This was done to stimulate demand, but the result was that foreign buyers delayed delivery of cotton they were already committed for and drastically increased the financial costs of the exporting companies. The total value of the lint cotton exported last season was about US $200-225 million. The monthly carrying charges on this value of cotton should have been about US $ 2-2.25 million.

To counteract this effect, the ALTOTEXA Management Committee, at its meeting on 16 January 2000, decided to offer discounts for early shipment for the 1999-2000 season contracts on varieties Giza 45, 70, 76 and 77 (ELS varieties). A 3-percent discount was offered for shipment in February, a 2-percent discount for shipment in March and a 1-percent discount for April shipment. This discount was aimed primarily at Giza 70.

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